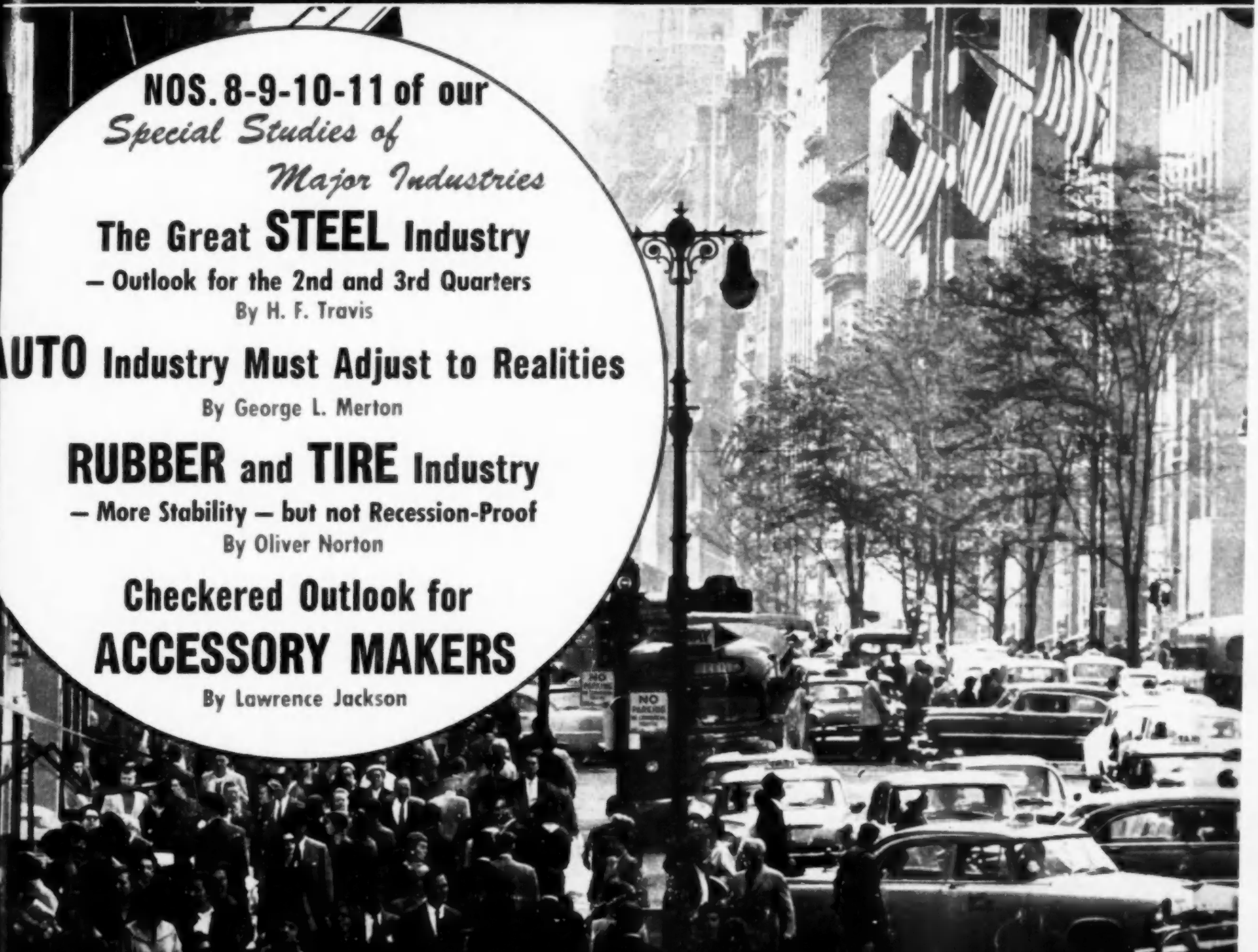
ANY STOCKS ARE STILL TOO HIGH

The MAGAZINE of WALL STREET

BUSINESS AND ECONOMICS

and BUSINESS ANALYST

MAY 10, 1958 — 85 CENTS



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— The time needed for correction
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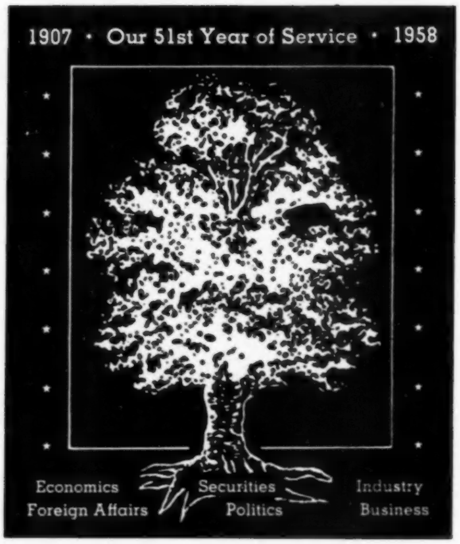
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*



The Trend of Events

GENERAL MOTORS SPEAKS UP . . . The whole nation of tired businessmen, who have for years been frustrated in dealing with the union leaders, are vociferously applauding the firm stand taken by General Motors in cancelling its contract with the U.A.W. as of May 30th. This is the first time since the recession began that any firm forward step has been taken to remove the road-block that stands in the way of a realistic solution, although we were all fully aware of how important it was to settle the problem of labor costs if prices were to come down, not only within the income of our own citizens but for buyers of our goods abroad.

I, for one, would like to give a medal to the executive responsible for this decision because this forthright step is bound to encourage brow-beaten employers all over the country to stand up and fight for the preservation of a free, democratic system which has long been lacking in this country under union monopoly.

The cooperation between General Motors, Ford and Chrysler in dealing with this matter objectively rather than through a competitive state of mind, — will have an inspiring effect on all business and industry in a way that may even help us to solve the problems of profitless overproduction, and recognition of the need for a live-and-let live policy in industry instead of cut-throat competition, which floods the market so that nobody makes any money — as has been made clear in recent years.

If this is the beginning of a real get-together it is bound to have an electric effect—discouraging the further use of expedients to put excess capacity to work—for the stepping into each others preserves has only piled up problems to be solved another day.

And if Congress follows up the first step taken by General Motors with sound labor legislation, we will be able to get somewhere in solving this serious recession, with all its handicaps in a troubled world in which we are further beset by a ruthless Russia, whose subversive activities are being concentrated on economic warfare.

The hemming and hawing that is going on in Congress regarding labor legislation is disillusioning even to the most unsophisticated citizens, as I have found in talking to people in all walks of life. The time of palliatives is over. Congress must seriously get down to work and give us decent labor laws that will not strangle our economy. That is what we are all waiting for. The average man has expressed himself as believing the tax cut now would be unsound—but as something that would be eagerly welcomed in better times. The native intelligence of even the most simple recognizes the proposal—merely as a gimmick designed to get votes—a means for public financing of elections.

I doubt whether there are really any large vote-getting potentials in a tax cut — and thus the candidate who stands out against this proposed measure and exposes its great weakness to the public will first get the respect and then the votes of the citizens of his community. And, what is more, he will rise to power as a national leader.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

As I See It!

By CHARLES BENEDICT

HOW ABOUT A CHAIR OF COMMONSENSE?

IN Every College? – Wow!

Intellectualism without commonsense is as barren of fruition as hair on a bald head. The use of commonsense spells the difference between an "egghead" and an intellectual who is a practical thinker.

This age of revolutionary and imaginative activity urgently calls for the type of man who while having his head in the skies, has his feet on the ground—and his eyes on the ball too.

The great executives who achieved a high degree of success testify that "that sixth sense"—call it commonsense—was the vital ingredient in their thinking and planning. This is true both of college men – and those who came up the hard way—men who learned through their own experience and observation during their lifetime. And from the past too—through an analysis of the reasons for the success and failures of men and nations throughout the ages.

This is something we must remember in planning our educational system today, because men as individuals create the situations that make economics good or bad—whose thinking not only affects their own well-being, but the well-being of the nation whether merely as citizens or leaders.

It is not enough to train men to be engineers, scientists, doctors or business executives, and mold their minds on the theories of the profession they chose. We must go further to prevent the shallow thinking that is responsible for all our troubles—and particularly develop "that sixth sense" which is based on the realities of human psychology—on the understanding of the natural emotional responses of one man to another, which has remained constant during centuries of evolution – so that we can profit by the lessons to be learned from the rise and decline of men and empires throughout time.

This is imperative, because each new generation in the saddle, contemptuous of the past, wants to try its own wings. And in seeking to assert its will, overreaches and rides for a fall, perpetuating the cycles of success and failure—boom and bust.

Let us not forget that in the molding of men's minds we must reckon with the fact that understanding and civilization of the "brute" must be carefully undertaken—that it calls for an intense training just short of setting minds and hearts in a groove—or in that pattern of mediocrity which discourages free-thinking.

But to educate our young in this fashion, they must be taught to think with commonsense. Logic is not enough, because – on the facts presented—a man can think along the lines of purely mechanical calculation – and yet frequently do so unrealistically. Indeed logic can lead—to an impasse—as in the case of the student whose calculations, based on theories of aerodynamics, would lead him to believe that a bumble-bee could not fly since his wings are inadequate in proportion to the construction of his body. Common-

Yes, Time We Adjust Our Mortar Board!

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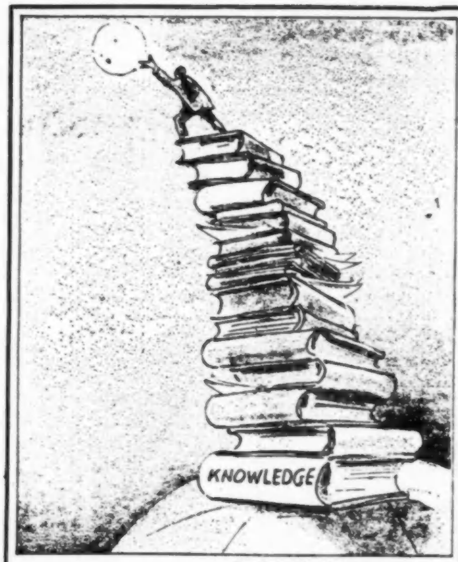
With apologies to Mr. Shoemaker

sense would realize there was an error somewhere since the bumble-bee *does* fly—and recognition of this truth would end in exciting the curiosity of the student—who in finding the answer would stumble on a new principle.

Science today is actually pursuing an adventurous course. Yet the project of an outer space program is a deadly serious one, for which huge sums of money are being spent and being solicited on what is practically a speculative basis. The billions of taxpayers' dollars being sought to finance a trip to the moon is unrealistic in character and in conception. Already it is being proven that the mathematical calculations of our scientists are of a highly adventurous character, based on facts which are assumed but not known —but already data from Explorers I and II indicate that yet unidentified cosmic rays hundreds of times more intense than had been expected, are disclosing the certainty that invisible and silent death awaits man if he ventures more than 600 miles into outer space without being shielded against radiation—let alone the matter of getting these intrepid explorers back to earth (assuming they are still interested). And yet, visionary planners hold fast to the goal of a flight to the moon, although they have not yet formulated — invented — or tested the protective shielding, which they blithely refer to as though it was assured of accomplishment.

In the meantime, we will be called upon to spend billions of dollars to finance their adventurous dreams. What began this anyway? The chagrin that Russia was first in launching an earth satellite — her Sputnik? Are we to spend billions purely to take up the gauntlet of this challenge—exhaust ourselves in a nebulous pursuit to outdo the USSR—to get ahead? That way could lie inflation and serious damage to our economy.

Fact is, when commonsense instead of emotional thinking asserts itself, we will readily realize that while concentrating our attention on outer space, Russia is employing the time to entrench herself in strategic areas all over the world—and is realistically seeking an end to the costly production of the materiel of war, in order to be able to use her man power and productive capacity for housing—and the manufacture of the consumer goods her people are demanding.



Barck in The Chicago Sun-Times
"How to reach the moon."

Justus in The Minneapolis Star
"By golly—it's worth it!"

Instead of pursuing our romancing with the man in the moon, we would be showing greater wisdom to set our house in order in this crisis—to correct the errors of the past so that we may move ahead into a new age in which our wealth can produce a greater—a better America. An America in which our standards of life will be based solidly on true security — on realistic education — fundamental well-being—rather than the multitudinous gadgets which are forced down our throats over and over again through high-pressure sales gimmicks of one kind or another, in an aura of excited pursuit of the dollar for its own sake.

That is why I dream of a Chair of Common Sense in our colleges. The effects would be electric on the practical and judicious thinking of the young — so badly needed today — and would insure the type of men fitted for leadership in the days to come.

In the meantime, we can divert the money allotted or appropriated for adventurous gambles, to the purpose of replanting our forests — to restoring eroded soil — to correcting our serious water shortage—and for much needed flood control—to cite but a few of our top priority programs — for these are projects that can bring to all our people a manifold return for the money spent. And, what is more, could be used to put men to work constructively at tasks of vital interest to the whole country at this crucial time in our affairs that would conserve, reclaim and add to our future wealth — and it would be easy of accomplishment, for the sums already designated are astronomical.

And last — but certainly not least — it can set us on the road to developing an educational system that would produce mature minds, able to successfully cope with our problems not only in the fields of industry and economics (there seems to be a bankruptcy of new ideas today), but to develop men able to think of our country as a whole—to think and plan its cultural as well as its economic problems—where we could show men how to benefit from the mistakes that have gone before — to acquire the humanities that would outlaw war—and learn the know-how that would fit us to enjoy the freedoms that we possess—and how to preserve them for posterity.

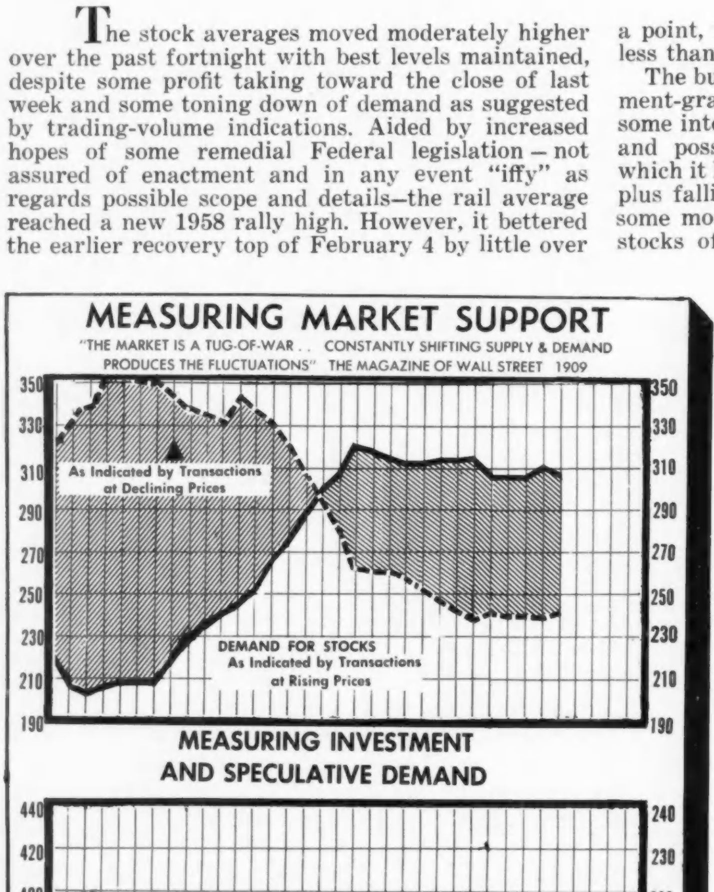
Many Stocks Are Still Too High

Excepting stable sectors of the economy, earnings will remain poor for some time to come. Probably the worst of the dividend news is still ahead. Ignoring this, the market has risen further. Many stocks appear over-valued. Traders and some investors seem to be more hopeful than realistic. We still advise a conservative, selective policy.

By A. T. MILLER

The stock averages moved moderately higher over the past fortnight with best levels maintained, despite some profit taking toward the close of last week and some toning down of demand as suggested by trading-volume indications. Aided by increased hopes of some remedial Federal legislation – not assured of enactment and in any event "iffy" as regards possible scope and details–the rail average reached a new 1958 rally high. However, it bettered the earlier recovery top of February 4 by little over a point, to 112.27, which represented a recovery of less than 20% of the drastic 1956-57 decline.

The bull market in utilities and many other investment-grade income stocks was extended, but showed some intermittent signs of at least temporary tiring, and possible need of consolidation. The basis on which it has been built–good earnings and dividends, plus falling money rates–has not been altered; and some moderate further rises in many, if not most, stocks of this type could be justified. However, it should be recognized that (1) the bullish considerations have been discounted in substantial degree, (2) that the stocks are a good deal less cheap than they were in the late months of 1957 and the early weeks of 1958, and (3) that the potential from here on is by no means unlimited.



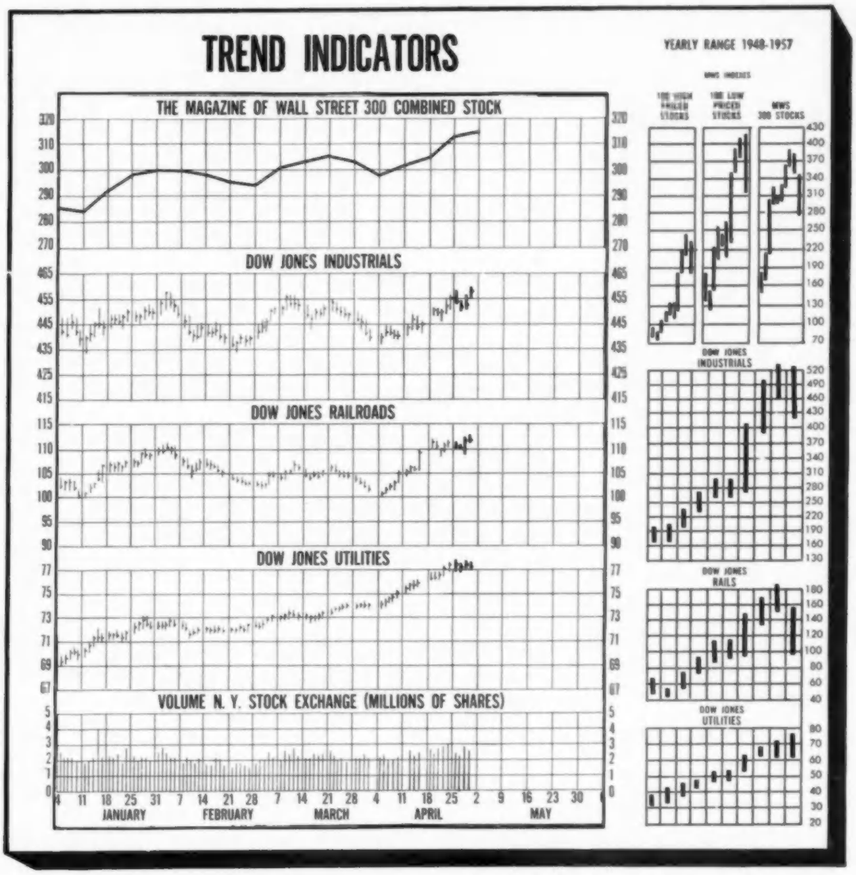
Behavior of Industrials

At last week's best intra-day level, the industrial average bettered its comparable February 4 rally top by a fraction; and its best closing figure of 459.56 compared with early February's 458.65. Thus, a more than fractional "penetration" was not achieved. Possibly it may be on a further try, possibly not. If not, traders probably would figure that the technical "odds" call for a trading-range downswing. On the other hand, a betterment of the February high by a more decisive margin might impress traders more than investors; and could result in a double-cross of hopeful buyers. There have been previous instances in market history in which moderate "penetrations" of supposedly significant supply levels have been promptly followed by substantial sell-offs. Of course, judgment of market potentials, on the basis of apparent fundamentals, can err, but so can the "technical indications". Without ignoring the latter, and while trying to avoid undue rigidity in our thinking, we are inclined always to put most weight on appraisals of funda-

mentals of stock values.

During most of this past fortnight, the behavior of the industrial average has "looked good", and many more individual stocks have reached new highs for 1958 or longer, than have sagged to new lows. When that is so, many people feel the itch to buy, worrying that they might otherwise "miss the boat". It ought not to need emphasis that a rising, or rallying, market always "looks good" — up through the day preceding the start of a sell-off.

We still think that people who act on the general theory of an inclusive bear market, or bull market, are on untenable ground. This is a "market of stocks", and of stock groups. A number of favored groups, preponderably in the defensive income class, have risen above their 1956-1957 tops. They include baking, finance and small-loan stocks, food brands, food stores, drugs, electric utilities, natural gas distributors, and tobaccos, among others. Elsewhere in the Magazine, we have heretofore made many profitable recommendations in the attractive sections of the market.



At this stage, the case for an important rise in the great majority of medium-grade or speculative stocks remains dubious in our opinion, with limited trading-range swings more likely; and the same should be so of nearly all of the popular and still over-valued "growth stocks". Aside from premature hopes of a real recovery in business activity and corporate earnings on the part of many individual investors, plus probably excessive current emphasis on the threat of more long-pull inflation, the chronic bias of mutual funds toward the buying side, regardless of the absence of true bargains, is a good part of the reason for stock prices which in many cases appear out of line with likely earnings and dividends for an extended time to come.

It may be that the low point in average industrial stock prices was seen last October. If so, it needs to be emphasized that, in relation to earnings and dividends, it was an abnormally high bottom. That implies, as we look at it, that the upside potentials cannot be wide — unless we are to have a fanciful speculative spree, out of line with values and prospects. That would mean later and bigger trouble.

For reference, representative industrial stocks sold on a cash-dividend yield basis of less than 4.5% at the October low, roughly 14% in excess of high-grade bond yields at that time; and are priced now to yield under 4.2%, which is less than 20% over bond yield, despite the shrinkage in the latter since October. In round figures, here are industrial stock yields at earlier lows back to 1938: 1953, 6.3%; 1949, 7.3%; 1947, 5.3%; 1942, 8.4%; 1938, 8.3% — all at least double, and some much more than double, prevailing bond yield.

Some Pertinent Comparisons

To cite a few "growth" stocks, Minneapolis-Honeywell sold at 16.1 times earnings at its 1953 low, to yield 4.2%. It is now at more than 25 times likely 1958 earnings, and at a yield of 1.6%. Minnesota Mining & Mfg. sold at 19.6 times earnings at its 1953 bottom, to yield 2.4%, against an estimated ratio over 35.0 at present and a yield of 1.6. National Lead was available at 11.7 times earnings, on a 5.9% yield, at its 1953 low, against a present estimated ratio around 25 times reduced 1958 earnings and a 3.4% yield. With respect to attraction at present levels, the comparisons are equally sobering in the case of more representative industrials such as U. S. Steel, Kennecott Copper, Goodrich, General Motors, U. S. Gypsum, Shell Oil, Standard Oil (Jersey), Union Carbide and most others.

While the business recession may be near bottom, the May-June statistics are unlikely to provide proof thereof; and, in any event, we are more concerned about its likely duration than its depth. Regardless of Government action, the wait for real revival in the key durable-goods section of the economy figures to be a rather long one. So far, you have seen only a relatively small start on dividend cutting. There is no change in our conservative, selective policy. — Monday, May 5.

The GREAT ECONOMIC PROBLEM of OVER-CAPACITY

— Its causes — how much time needed for correction

BY HOWARD M. NICHOLSON

EARLY in 1958, American business is spending at an annual rate of about $33 billion for deliveries of new plant and equipment. How much of it is needed? How much of it would be ordered now, in the light of the business trend of the past nine months? How much of it will yield anything like a normal return on investment in the next few years?

Answers: little or none of it is needed; little or none of it would be ordered today; little or none of it will yield any return, much less a normal return, over the next few years. It is being delivered today, in vast quantities, because a year ago, when it was ordered, the American economy was still in the throes of a classical wave of expansion such as strikes this economy every quarter of a century. Typically, such waves of expansion bring total capacity to far above levels required to meet current and prospective demand. The result is rapidly intensifying price competition, as owners of capacity struggle to keep it engaged; price competition then attacks the profit margin, so that even capacity operation yields little return. The wave finally vanishes, leaving in its wake a greatly weakened capital gods industry, which has overexpanded in order to meet the swollen capital goods needs of other industries. Also in its wake are serious maladjustments, excessive fixed costs, depressed prices, perhaps major failures; followed by reorganization, integrations of corporate structures, recapitalizations, sales of assets to firmer hands, and, finally, a return to efficiency. The process of digesting the wave of capital excesses is long, and fraught with dangers for management, investors, and the business sector as a whole.

At the Beginning

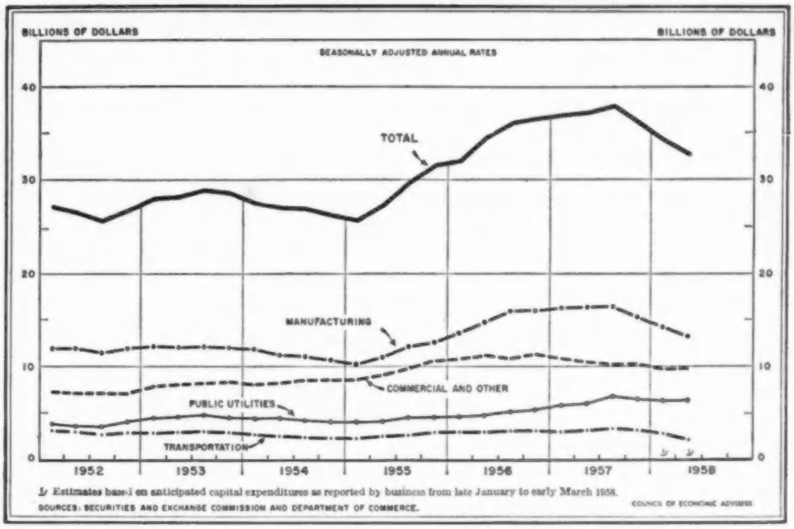
How did we get into this one? Its roots lie at least as far back as World War II, and some of them can be traced to the early 'thirties. Between 1929 and 1939, the American business system actually consumed capital; it was exhausting productive facilities faster than it was installing new ones. Profits were hard to find and hence there was no short-term incentive to invest. Moreover, the apparent long-term growth in the importance of government, and its progressive invasion of what had

been business functions, suggested that the outlook for private capital was no longer favorable in the United States.

By the beginning of World War II, the stock of capital assets in the United States was thus depleted, and also obsolescent. Suddenly, the whole range of facilities—old and new, efficient and inefficient—was called into operation to meet the pressing demands of total war. Little in the way of manpower or materials was available during the war to maintain the supply of tools, much less to augment them, and the stock of capital assets was further depleted.

But at the same time, corporate liquid assets were immensely enlarged by the war. Business thus emerged, in 1945 and 1946, into a new era of tremendous national and international markets, loaded with liquid assets but with an extraordinarily outdated, exhausted, inefficient supply of tools to meet the greatest boom in the demand for goods the nation had ever known.

EXPENDITURES FOR NEW PLANT AND EQUIPMENT



The result was a capital goods boom of record proportions. In 1939, business had spent less than $6 billion for plant and equipment; by 1948 it was spending more than $22 billion a year. By late in the Korean war, the spending rate hit $28 billion, and in 1957 it climbed to the imposing peak of $37 billion.

Pressures Distorting Judgment

To do justice to the judgment of American business, it should be added that circumstances virtually trapped management into excessive capital spending in the past three or four years. The end of the excess profits tax in 1954 redirected a substantial portion of earnings into funds available for capital outlays, particularly in large corporations that were most responsive to such growth stimuli. Technology also required, by its heightened pace, a heightened rate of outlay in new and more efficient machinery. Rapidly rising wage rates in the postwar years were placing intolerable upward pressure on unit costs—pressure that could be relieved only through labor-saving machinery. Cyclical expansion in personal debt was adding a temporary net addition to the size of markets; and inventory accumulation was likewise adding an ephemeral super-boom on top of the real boom. Business could hardly be blamed for assuming that even "idle" capacity was money in the bank; the net growth in total demand would soon enough bail out any importunate spending decisions, and soak up, in a matter of a few years at most, any capacity not currently engaged.

Underlying this wide variety of conditions tending to excessive investment in plant and equipment were two in particular. In the first place, starting in 1955, plant and equipment prices went into a sharp ascent. Whether this rise in the cost of investment goods was cause or effect could be argued at some length, but it is at least clear that it accelerated demand for plant and equipment, much as rising copper prices tend to accelerate the demand for copper. Why wait to buy a new plant, if it is going to cost 20% more in two years? Why wait for borrowing costs to go down a bare percentage point, if the price of the plant itself is going up 10 percentage points? In the face of the sharp climb in the cost of new facilities, monetary policy was thus bootless. American business began anticipating its capital needs far into the future.

In the second place, the probable needs of the future were vastly overestimated by business because of the unfortunate accident of 1955.

1955 — A Runaway Year

Precisely what happened to the American economy in 1955 is still not clear. It was more like a psychological brain storm. A second postwar recession had ended, without cutting any deeper than the first. A homebuilding boom had been revived with legislative stimulants and easy money. A lengthening of terms in the instalment debt market had reaped the most prodigious expansion in retail sales on record. Prices were rising, and nobody seemed to mind. The rest of the free world was beckoning hopefully for American goods, or at least American money to buy goods. The cold war was warm enough to suggest that Federal government spending for defense was going up, at the same time that tremendous new spending vistas were opening up in the road system and the school system.

The result was that a set of inflationary expectations that had been half-dormant through the postwar years came suddenly and fully to life. National buying rose at a tremendous rate; consumers and business bought more than they needed, because secular, long-term, permanent inflation seemed suddenly to have emerged from the shadows and moved toward the center of the stage. This was not galloping inflation; but it was galloping demand for goods, for fear of galloping inflation.

Under these assorted stimuli, unified by the threat of inflation, American production went through the roof. While capacity had been growing regularly and rapidly in the past ten years, production roared

Major Materials—Capacity and Output

Output in 1947-49 = 100

	Capacity Jan. 1	Output, seasonally adjusted Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
17 MAJOR MATERIALS													
1951	128	124	125	126	127	127	126	126	126	124	123	123	123
1952	135	124	124	122	116	109	86	86	125	128	129	129	131
1953	144	131	131	133	134	134	133	134	135	130	128	124	120
1954	151	119	119	116	117	118	119	119	118	118	122	126	129
1955	155	131	135	140	140	141	142	142	143	146	145	147	148
1956	160	149	149	149	149	147	144	108	135	148	149	149	149
1957	166	150	149	147	145	145	142	143	146	145	141	137	130
1958	175e	125											
METALS													
1951	125	122	119	122	123	124	125	127	127	128	126	126	126
1952	130	126	127	126	113	113	34	34	126	135	135	135	139
1953	143	137	137	138	137	138	140	141	141	137	135	129	120
1954	151	117	113	106	106	108	111	109	108	109	113	122	125
1955	154	127	133	141	144	145	144	142	149	152	152	153	154
1956	159	153	152	154	156	150	145	45	124	158	161	158	159
1957	166	157	155	150	147	142	141	144	147	140	136	129	118
1958	173e	103											
TEXTILES													
1951	136	129	132	133	131	131	129	128	125	120	117	115	113
1952	143	117	114	107	106	104	110	114	121	126	122	122	124
1953	153	120	121	123	127	127	128	129	126	116	112	107	106
1954	161	106	108	109	110	111	111	114	114	113	119	122	125
1955	164	123	127	133	130	127	129	130	131	134	128	131	134
1956	161	134	134	130	127	125	119	121	122	120	125	124	124
1957	158	130	130	128	129	138	126	128	130	132	126	124	121
1958	166e												

Based on data for 17 materials combined with value added weights. Metals are pig iron, steel ingots, primary aluminum, and refined copper. Textiles are cotton yarn and synthetic fibers and yarn. Materials included in total and not shown separately are cement, wood pulp, paper, paper-board, petroleum products, coke, and five industrial chemicals.

Source—Board of Governors of the Federal Reserve System Division of Research and Statistics.

up to capacity limits. By mid-1955, it was impossible to get on order books for steel; the aluminum industry was booked solid; nickel and a number of other nonferrous metals were critically short. Producers did the only thing they could do under the circumstances; they produced as fas as they could with the capacity in existence, and planned and ordered new capacity as fast as they could.

The trouble, of course, was that 1955 was no year in which to set long-term plans. The markets of 1955 were hopelessly swelled out of all resemblance to reality by the speculative influence of threatened inflation, and by the most violent atypical growth of private debt in all the debt-ridden postwar years. Capacity planning in the super-heated atmosphere of 1955 was bound to shoot far above the realities of the late 1950's—perhaps to exceed even the now dimly seen horizons of the early 1960's.

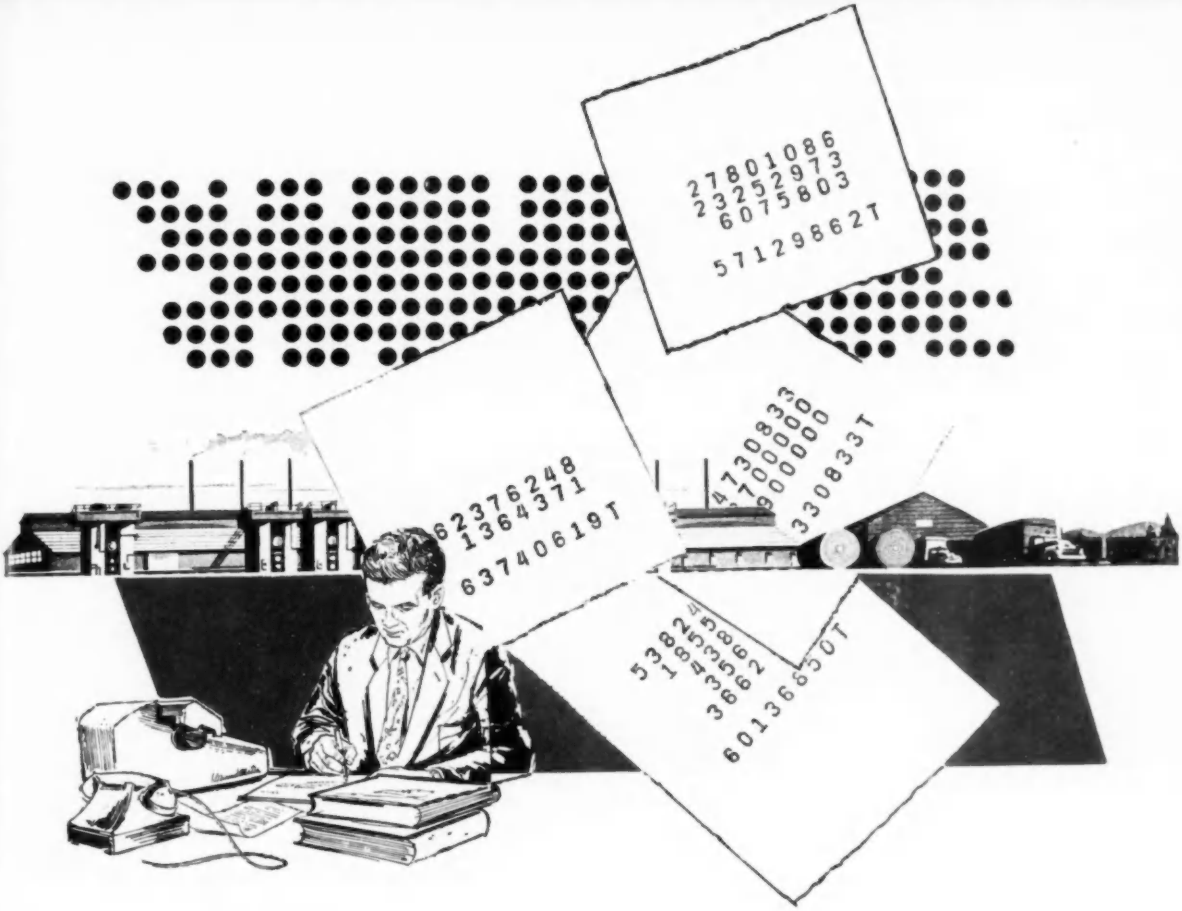
The capital spending wave that took form in the middle of 1955 ran imperturbably through the middle of 1956, despite slowly emerging evidence (in the automobile market, as well as in other places) that it was overshooting. By early 1957, this evidence was hard to ignore, and efforts to keep capacity fully engaged were taking on a frenetic appearance. As markets one by one weakened and fell short of the available capacity, efforts to stimulate style obsolescence gradually intensified. Design changes became more frequent, more radical, more costly—continuing a trend that had become evident much earlier in the postwar years. Product competition and differentiation increased tooling costs further, and began to amplify selling and advertising costs. Reluctant markets were placed under the greatest selling pressure in history, as capacity to produce climbed inevitably higher and demands steadily subsided.

Our Entire Economy Involved

These conditions were clear enough even in industries producing finished consumer goods, where actual capacity measures are hard to come by. In raw-materials industries, the figures themselves have pointed to a steadily widening gap between demand and the capacity to supply. The Federal Reserve's index of raw materials capacity and production—an index that includes seventeen basic industrial commodities and fuels—showed a rise of 55% in output capacity between the early postwar years and the end of 1954, while output itself had risen only about 30%. By the end of 1957, capacity had risen by fully 75%, while output was little changed from where it was at the end of 1954. Three years of rapid growth in raw materials capacity; no growth at all in raw materials output! And even at the projected, greatly reduced spending rate of the next few years, capacity will continue to grow at 3% or 4% per year.

The Aftermath

How much of present capacity is "excess" in an economic sense? That depends on how "excess" is to be defined. But if it is defined as any capacity that is not now, or will not shortly be, earning a normal rate of return, then a great deal indeed is excess. In manufacturing, (*Please turn to page* 232)



PART ONE

What First Quarter Earnings Reports Reveal

— Reassurance for some Stockholders — Shock for others

BY JOSIAH PIERCE

IN the spring of the year, rivers overflow their banks. Recently, the financial community has been flooded with a steady stream of adverse first quarter earnings reports. In many instances, these reports represent a sharp drop in earning power—down to or below the point of dividend coverage. In other instances, erosion of earnings has been more gradual. However, there are exceptions where the trend of profits is still upward.

The unfavorable reports appearing daily range the entire gamut of industrial activity from raw materials to manufactured products and finished goods. They include metal, steel, machinery and equipment companies adversely affected by the decline in plant expansion and the business recession, as well as producers of consumer durable goods, such as automobiles and appliances, where the market is temporarily satiated or credit is over-extended. The so-called "growth" industries, such as oil, paper and chemical, have not been immune. In some fields, it is evident that there is an excess capacity in relation to current demand. Sights were set too high, with resulting over-expansion. Thus, competition has been intensified in such industries. However, in nearly all adverse reports, the familiar cost-price "squeeze" is visible. This can be found even in the case of companies with higher sales—the exception to the general experience of lower sales. In our May 11th issue a year ago, we called attention to the impact of rising costs on profit margins. Since then, we have frequently forewarned our readers of the probable effect of inflexible costs on profits, in a period of declining volume. In greater part, rigid labor costs are responsible for the profit "squeeze" now evident in wide areas of industrial activity.

As stated, there are some industries where the earnings trend is upward for a number of leading companies. In most cases, this is due to higher sales. In general, such companies sell products close to the consumer, often under well-known brand names that

Quarterly Comparison of Sales and Earnings

	1958		1957							
	1st Quarter		4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share
Air Reduction	$ 43.2	$ .88	$ 49.0	$1.03	$ 47.8	$1.10	$ 46.8	$1.02	$ 46.2	$1.16
Aluminium, Ltd.	n.a.	.17	49.3	.34	102.8	.15	110.7	.39	122.8	.50
Aluminum Co. of America	181.5	.53	213.3	.75	232.7	1.01	214.6	.91	208.6	.87
American Cyanamid	132.5	.58	140.3	.69	133.0	.62	127.0	.49	132.1	.61
American Smelting & Refining	n.a.	.57	114.8	1.12	117.7	.69	121.5	.78	144.3	1.35
American Tobacco	247.0	1.79	299.5	2.43	283.0	2.55	270.3	1.87	254.7	1.44
Babcock & Wilcox	92.5	.33	96.9	.26	87.6	.98	95.0	.81	86.4	.62
Bethlehem Steel	497.5	.52	601.6	1.02	638.7	.86	687.2	1.09	676.1	1.16
Caterpillar Tractor	127.4	.35	117.4	.25	160.5	1.08	162.8	1.36	186.6	1.60
Chrysler Corp.	537.2	.....	819.1	1.88	684.7	1.59	910.3	4.95	1,150.7	5.34
Combusion Engineering	74.2	.51	129.2	.97	51.4	.36	60.4	.66	44.9	.44
Continental Can	240.8	.60	241.1	.58	312.5	1.26	271.0	1.06	221.5	.62
Corn Products	81.6	.56	81.3	1.01	88.5	.50	85.4	.47	76.5	.54
Crown Zellerback	108.5	.51	110.4	.63	122.8	.72	116.6	.65	110.7	.66
Crucible Steel	44.6	.05	50.1	.13	49.5	[d] .06	65.7	.73	70.6	.93
Douglas Aircraft	312.1	2.32	262.9	1.61	262.8	2.17	294.2	2.13	271.3	2.37
Dow Chemical*	144.8	.31	170.9	.57	166.3	.56	165.6	.62	165.1	.54
Du Pont	415.0	1.51	470.0	2.04	505.9	2.14	505.0	2.19	502.0	2.12
Ford Motor	1,095.8	.42	1,352.0	.97	1,409.7	1.07	1,440.0	1.30	1,569.5	1.85
General Electric	964.9	.56	1,166.4	.74	1,047.9	.63	1,072.4	.73	1,048.8	.73
Goodrich (B. F.)	161.9	.70	173.8	1.02	194.7	1.18	182.3	1.07	183.6	1.14
Gulf Oil	n.a.	1.95	n.a.	2.06	n.a.	2.51	n.a.	3.60	n.a.	3.05
Kennecott Copper	84.7	1.08	103.2	1.31	104.3	1.45	126.7	1.99	133.6	2.57
Kroger Co.	407.4[1]	1.27[1]	412.4[1]	1.13[1]	509.6[2]	1.58[2]	384.4[1]	1.05[1]	367.6[1]	1.14[1]
Libbey-Owens-Ford Glass	n.a.	.72	68.5	1.85	49.9	.75	n.a.	1.16	n.a.	1.58
Liggett & Myers	124.0	1.44	135.9	1.72	145.9	1.92	156.0	1.91	132.5	1.29
Lorillard (P.)	104.0	1.90	102.5	1.94	86.2	1.02	56.5	.48	48.1	.36
Merck & Co.	50.2	.63	48.4	.51	47.2	.56	46.3	.58	45.0	.55
Monsanto Chemical	127.4	.27	130.3	.24	139.6	.41	145.8	.50	151.2	.52
National Biscuit	120.0[3]	.71[3]	108.2	.91	108.5	.83	105.7	.76	102.0	.68
National Cash Register	92.3	.52	104.6	.84	95.0	.57	95.7	.62	87.1	.54
National Dairy Products	358.3	.60	357.7	.74	365.7	.62	358.7	1.06	350.2	.56
National Gypsum	31.3	.50	33.9	.66	37.6	.93	35.8	.81	34.0	.76
National Lead	101.9	.72	118.0	1.11	135.5	1.04	133.8	1.27	147.9	1.22
National Steel	113.4	.51	147.9	1.53	149.7	1.08	166.4	1.70	176.8	1.82
Parke, Davis & Co.	42.8	1.45	44.7	2.17	41.7	1.24	38.1	1.12	37.7	1.14
Pfizer (Chas.) & Co.	53.7	1.20	56.9	1.37	51.7	1.01	47.7	.84	28.3	1.01
Phelps Dodge	n.a.	.65[3]	62.4	.85	63.7	.84	77.4	1.28	83.5	1.50
Phillip Morris	99.3	.82	100.9	1.28	105.1	1.22	122.7	1.20	95.2	.88
Pittsburgh Plate Glass	117.3	.51	149.2	1.45	160.5	1.45	160.1	1.62	150.9	1.34
Rayonier, Inc.	25.5	.36	28.2	.23	29.3	.19	29.9	.35	30.0	.09
Republic Steel	190.6	.55	259.0	.77	275.6	1.29	338.2	1.60	354.4	1.81
Reynolds Metals	115.6	.86	114.7	.88	114.9	.79	111.7	.75	105.1	.94
Reynolds (R. J.) Tobacco	254.4	1.64	267.7	.92[4]	277.9	2.06	271.1	1.70	236.6	1.25
Safeway Stores	491.3[1]	.57[1]	669.1[2]	.80[2]	497.6[1]	1.84[1]	483.1[1]	1.80[1]	467.3[1]	.54[1]
St. Regis Paper	81.6	.42	93.4	.78	94.0	.50	88.2	.60	88.4	.63
Scott Paper	70.6	.66	70.3	.71	65.2	.63	69.6	.68	69.8	.66
Texas Company	n.a.	1.25	570.3	1.51	754.4	1.42	1,199.4[5]	1.25	......	1.57
Union Carbide	294.0	.76	349.1	1.01	355.5	1.13	339.0	1.13	151.3	1.18
Wrigley (Wm.) Jr. & Co.	20.8	1.35	21.1	1.14	25.0	1.57	24.0	1.43	22.0	1.45
Youngstown Sheet & Tube	115.3	1.04	144.5	3.10	168.4	2.88	176.7	3.29	192.0	3.09

n.a.—Sales not yet available.
d—Deficit.
*—Fiscal year ended May 31, 1957.
1—12 weeks.
2—16 weeks.
3—Estimated.
4—Adjusted for adoption of Lifo inventory method.
5—6 months.

have wide acceptance. Usually, the products are consumed rapidly or purchased on a day to day basis. These favorably situated industries include the food, grocery chain store, tobacco and drug groups.

In a separate article in this issue, we are covering the automobile industry, one of the most important contributors to economic activity in more normal times. We have mentioned in that article the decline in first quarter earnings of **General Motors, Ford Motor** and **Chrysler**, as well as the latter's dividend reduction. In another separate article, we have covered the steel industry and the low level of earnings of leading companies. We may repeat that first quarter earnings of leading steel companies reporting to date, except **U.S. Steel** and **Armco Steel**, are less than their current quarterly dividends, even though these dividends have been declared.

The aluminum and copper industries, discussed in our preceding issue, are two examples of at least temporary over-capacity in basic raw materials in relation to demand. Since our articles on these industries, **Aluminum Co. of America**, the dominant company, has reported a decline in first quarter earnings to 53¢ per share from 87¢ a year ago. Also, **Aluminium Ltd.**, leader in world markets outside of the U. S., has reported a drastic drop in first quarter profits to 17¢ per share from 50¢ in the initial three months of last year. This was followed by a cut in the quarterly dividend from 22.5¢ to 17.5¢ per share payable June 5th. In the copper industry, plagued by overproduction and lower prices, **Kennecott Copper** has just issued its first quarter statement showing earnings of $1.08 per share, compared with $2.57 a year ago. The $1.50 quarterly dividend was paid March 24th. Similarly, first quarter profits of **Phelps Dodge**, recently released, declined to 65¢ per share from $1.50 a year ago. The 75¢ quarterly dividend was paid on March 10th. At the annual meeting a stockholder asked what effect recent earnings would have on the next dividend declaration and the president replied that this was the "$64,000 question".

Lower First Quarter Profits Are General

Among industry leaders with a long record of growth, seldom interrupted, **General Electric** issued an unfavorable first quarter report, showing earnings of 56¢ per share, as against 73¢ a year ago. Recent earnings just covered the 50¢ quarterly dividend, last paid on April 23rd. An 8% decline in first quarter sales resulted in a 23% drop in earnings, compared with the initial three months of 1957. Thus, the profit margin was narrowed to 5.1¢ per dollar of sales, as against 6.1¢ a year ago. The company attributed recent lower earnings to decreased sales volume in most commercial products, a higher proportion of low-profit margin defense business and to "continually rising employment costs", as well as increasing raw material costs. In other words, with lower volume, the company could not pass on the increased costs to purchasers of its products. Thus, we have an outstanding example of the current cost-price "squeeze".

We have mentioned that a growth industry, such as the chemical industry, has not escaped the effects of the business recession. Since covering this industry in our April 12th issue, most of the leading chemical companies have released their first quarter reports. Earnings of **Du Pont**, for this period, declined to $1.51 per share from $2.12 a year ago. As dividends received from its General Motors holding amounted to 64¢ per share of Du Pont stock in both quarters, it is apparent that the company's chemical earnings dropped to 87¢ per share from $1.48 a year ago. The decline in sales amounted to 17% and resulted mainly from lower volume in the automotive and textile industries, which represent large outlets for the company's products. At the annual meeting, the president stated that current evidence indicates sales should show improvement and, for the year 1958, "may not be more than 5% or so below those of 1957". He noted that a general upturn of demand in the textile fibre business is anticipated in the last half of this year. However, he did not comment similarly as to the outlook for the automobile industry. He did state that the company was increasing its construction program this year, doubtless with a view to the future.

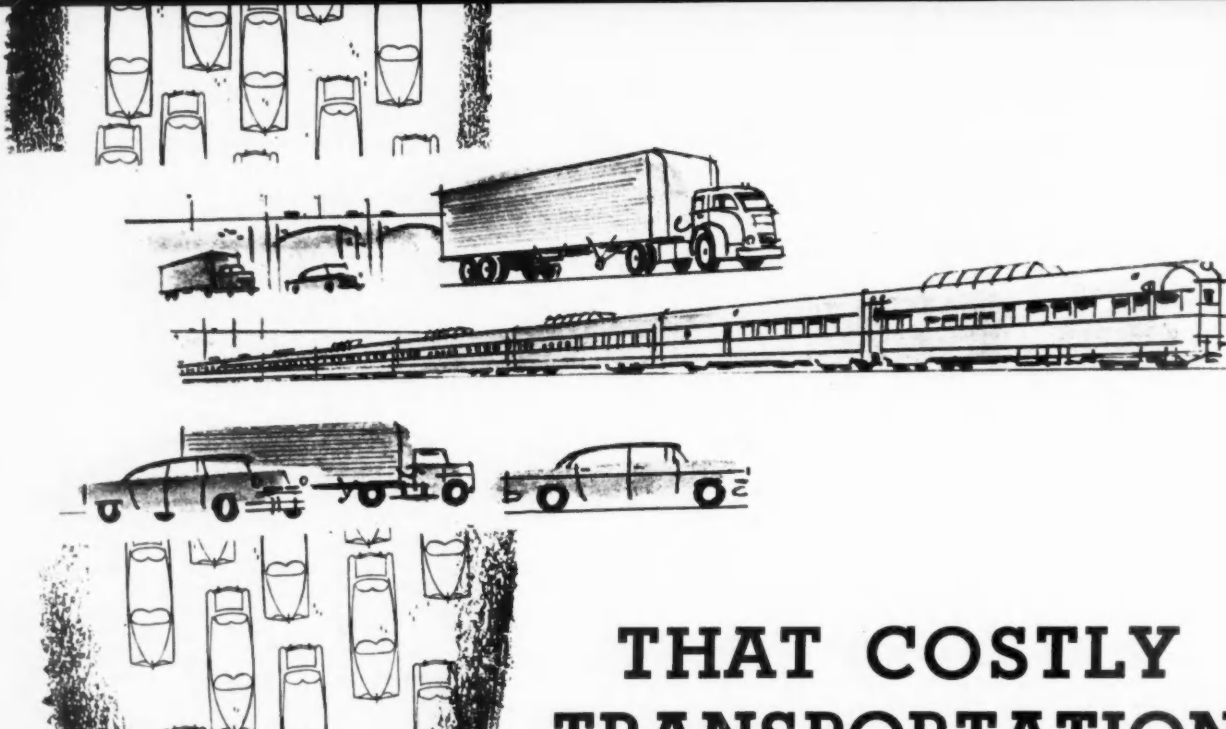
The first quarter report of **Union Carbide**, recently issued, showed a decline in earnings to 76¢ per share from $1.18 a year ago. Sales were 16% below the initial quarter of last year, due largely to decreased output in the steel and metal working industries, important customers of the company. The alloy and electrode divisions, that supply these customers, are currently operating at 50% of capacity. Indicating the company's efficiency of operation, these divisions are still in the black as to profits. The regular 90¢ quarterly dividend has been declared payable June 2nd. However, the president stated at the annual meeting that, without an improvement in earnings, this dividend rate may not be maintained.

Earnings Loss Outstrips Sales Decline

Dow Chemical, an outstanding growth company in the industry, has recently reported earnings of 31¢ per share, for the fiscal quarter ended February 28th, compared with 54¢ a year ago. In the recent period, sales were 12% lower, but profits declined 43%. Again, first quarter earnings of **Monsanto Chemical** dropped to 27¢ per share from 52¢ a year ago, on a sales decline of 16%. Lower sales were particularly evident in plastics and agricultural chemicals. However, in contrast with other leading chemical companies, first quarter earnings of **American Cyanamid** were only slightly lower, at 58¢ per share, than the 61¢ reported a year ago, after adjustment for the 2 for 1 stock split-up of July 1957. In the recent quarter, sales were approximately the same as a year ago. This relatively favorable showing may be attributed, at least in great part, to Lederle Laboratories, the company's drug division.

The Oils

First quarter earnings of leading oil companies, reported since we discussed the industry in our last issue, were adversely affected by lower output, excess stocks and price weakness in refined products. For instance, **Gulf Oil** reported first quarter profits of $1.95 per share, compared with $3.05 a year ago. Unsatisfactory domestic operations were counterbalanced by better foreign activities, thus preventing a sharper drop in profits. Earnings of **Texas Co.**, for the first quarter of this year, declined to $1.25 per share from $1.57 in the initial three months of 1957, when the Western Hemisphere oil industry was operating at a high rate to supply Europe with petroleum during the Suez (*Please turn to page* 227)



THAT COSTLY TRANSPORTATION IMPASSE

BY WARD GATES

AMERICA seems to be approaching a crisis in transportation. Almost every day the growing transportation problem is in the news in one form or another. Most often the items relate to the financial plight of the railroads and the difficulty they are encountering in maintaining earnings. Sometimes the transportation problem is reflected in the plans for a vast new highway building program. The problem crops up again in applications by railroads to discontinue or curtail service in some areas. At other times we see it in the pessimistic statements by air line presidents of what will happen if they are not permitted a fare increase. Occasionally it takes the form of reports of city department stores establishing suburban branches, or mention of the crowding of subway trains. Examples could be multiplied, but enough have been cited to show that the transportation problem affects all of us in one way or another.

Like all problems, this one had a small beginning. When the automobile and the airplane appeared, approximately half a century ago, they were not at first recognized as potential threats to existing methods of transportation. But in the last thirty years these two vehicles have been responsible for a virtual revolution in American transportation.

Competition from cars and trucks did not really become an effective force until the Twenties, when passenger car registrations reached about eight million and truck registrations about a million. Such competition, moreover, was not recognized as a problem until the Great Depression set in. During the Twenties, growth of total traffic obscured the fact that trucks and busses were taking some business which had until then been the exclusive property of the railroads.

But during the Thirties great inroads were made in the railroad business. It was not uncommon to hear the statement, near the end of that dreadful decade: "The railroads are a dying industry." By 1940 the number of passenger miles of transportation provided by the railroads had dropped almost 50% from 46.8 billion in 1920 to 23.8 billion. Revenues from passenger service had declined even more sharply, from $1,287 million to $417 million, or almost 65%. Ton miles of freight carried had slid from 410.3 billion in 1920 to 373.3 billion in 1940, a drop of 9%. Freight revenue was down 18% from $4,317 million in 1920 to $3,529 million in 1940. If the decline in freight traffic and revenues seems modest, it should be considered in connection with the fact that the national income actually increased 4% from $77,245 million in 1920 to $80,302 million in 1940.

Post World War II Revolution in Transportation

The need for transportation caused by World War II not only revived the railroads by providing plenty of traffic, but also gave tremendous impetus to the development and use of coastal and inland water-

ways. The war also familiarized thousands of men with air transport to the ultimate benefit of civilian aviation which had been having a hard time before World War II. Not until the pent-up demand of consumers for goods at the end of the war had been satisfied, and the effects of the "police action" in Korea began to wear off, was the magnitude of our transportation problem again evident.

Then it was realized that, in place of the near-monopoly of transportation enjoyed by the railroads in 1920, there were many methods of transportation available for both people and goods—private cars, busses, planes, trucks, barges and pipe lines.

The number of passenger cars had increased to more than 51 million which were providing more than 88% of all the passenger-miles of inter-city transportation. The amount of hard-surfaced road had been increased from 400,000 miles in 1920 to almost two million miles in 1956. There were more than ten million trucks in service. Busses claimed to be handling 50% more passenger traffic than the railroads, serving 40,000 communities with no other form of public transportation. Domestic air lines had increased the number of passenger miles flown from about a billion in 1940 to more than 21.6 billion in 1956. In 1957 for the first time in history the air lines carried more passengers more miles than the railroads.

Although the number of passenger miles and ton miles of service provided by the railroads both increased between 1939 and 1956, the railroads' share of the total number of passenger miles dropped (as shown in the accompanying tables and chart) from 68% in 1939 to 35% in 1956, and their share of total freight ton miles declined from 63% to 49%, during the same period.

The revolution in transportation has brought in its train changes in living and working habits no less striking than the figures cited above. The flexibility provided by the bus, truck, and private car have made possible a whole decentralization movement that is threatening our large cities. People and industry have moved and are moving from the cities to the suburbs and beyond. And we have the spectacle of men who sought jobs "near home" having to drive a considerable time each day to reach their work! Other incongruities which have resulted are:

—Streets meant to serve as thoroughfares, but clogged night and day with parked cars.

—Cars with potential speeds well above fifty miles an hour unable to average better than thirty-five miles because of congestion of streets and highways.

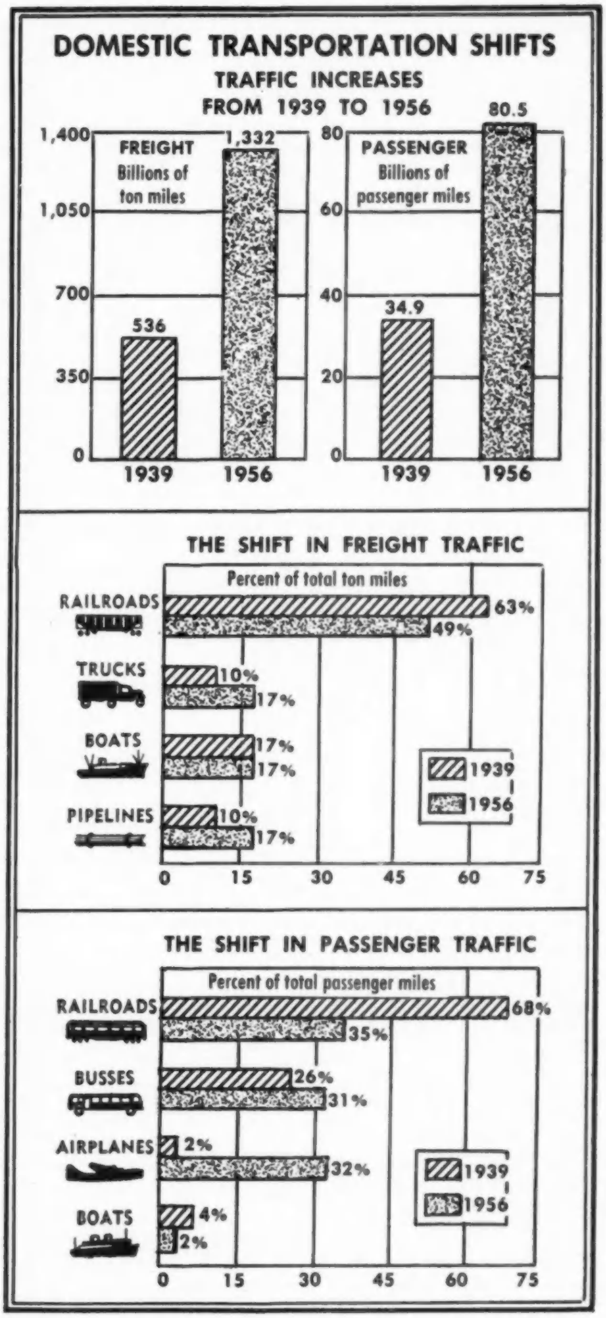
—Roads lined with warnings, cautions and signals, and cars equipped with many safety devices, yet a death rate from automobile accidents that is a horror to all thinking people.

—Housewives driving twenty miles in a vehicle weighing more than a ton to save a few cents on a purchase.

—Railroads attempting to abandon or curtail commuter service to large cities, although it is in such metropolitan centers that traffic congestion is greatest and crowding of transportation facilities reaches its highest point.

—City department stores going out of business because of inadequate trade.

—Plane trips between some cities taking as long as going by train or bus, if time to get to the airport and back to the center of the destination city is included.



NOTE:
The serious plight of the railroads is illustrated by the above chart, which shows the changes in freight and passenger traffic carried by all major carriers in 1956 as compared with 1939. While total freight traffic hauled by all major carriers rose by 150% during the period, the railroads received a continually decreasing share of the total. By 1956 they were handling only 49% of all freight versus 63% in 1939. Their experience with passenger traffic has been even worse. In 1939 the railroads secured a sizeable 68% of total passenger miles traveled. By 1956 their share had shrunk to a puny 35% as the result of successful competition from busses and airplanes.

The Plight of the Railroads

Another effect of the revolution in transportation has been on railroad securities. An index of 25 railroad stocks which stood at about 33 in 1926 (the earliest year for which the figures have been published), and reached a high of almost 55 in 1929, now stands at about 24. This is a net decline of more than 25% in the 32 intervening years. The index of 425 industrial stocks, which started at about 10 in 1926, reached a high of about 25 in 1929, a more recent high of 53 in 1956, and now stands at about 46, having registered a net advance of more than 350%.

What has brought the transportation problem into the news at this time, however, is not the social changes it has produced, nor the financial difficulties of the railroads, nor even the plight of the investor in railroad securities. The spotlight was turned on by the recent hearings before a Senate subcommittee, concerned lest an important mode of transportation, the railroads, become so weakened that they can no longer provide, in an emergency, the efficient transport required for national defense.

These hearings have directed public attention again to the incongruities and inequities in the way the various methods of transportation are treated in the United States. Much emphasis has been placed on the fact that the railroads are still regulated as rigidly as if they were a monopoly, although they are beset by competition from all sides. Competing methods of transportation enjoy direct and indirect help from government agencies, the railroads charge, while the railroads themselves are forced to contribute through taxes to this help. In short, the railroads no longer get a fair chance at the transportation of the country.

How this situation came about is not very clear. Some people are inclined to blame the railroad managements themselves. The charge is that for too many years the men in charge of the railroads of the country seemed to think that another rate increase or fare increase was the solution to almost every problem they encountered. Too little thought was given to the changes required by changed competition.

The railroads are inclined to lay much of the blame at the door of the Interstate Commerce Commission. The Commission, the roads says, has made it difficult if not impossible for them to check the loss of traffic to competing carriers. Railroads cannot compete, in the conventional way, by adjusting rates quickly when necessary to hold the business, because I.C.C. approval of such changes is required and usually involves considerable delay. The Commission is also slow in passing on applications to discontinue or reduce unprofitable services, and is notably tardy in reviewing proposed mergers which would eliminate duplications of service.

Some people believe that a part of the transportation problem is caused by the high labor costs resulting from labor union rules involving "featherbedding"–the use of more men than necessary for a given railroad job or the payment of a full day's wage for a few hours of railroad work just because years ago it used to take a full day to do the job.

Unfair Competition

Others hold that the Federal Government is responsible for part of the transportation problem. The Federal tax on transportation has caused, according to railroads, a considerable diversion of traffic to "private" carriers or trucking fleets built up by large companies to handle their own transportation without payment of the tax.

However, one can argue with equal logic and more truth that society as a whole is to blame for the transportation problem, not one group or one agency. The new methods of transportation that have made such progress in the last thirty years may not be the lowest cost methods available, but they are superior for certain circumstances and for certain purposes, or they are preferred by the public. What distresses the railroads is the conviction that they would get a larger share of the transportation available if the real costs of the competing methods were not concealed from business and the people.

For example, in discussions of the transportation problem the railroads invariably point out that trucks and buses use highways maintained at public expense while railroads must maintain their own rights of way. It is true that motor carriers contribute to the building and maintenance of highways through gasoline taxes, license fees, tolls and the like. Whether they pay their full share of the cost of such facilities is a question which could probably be debated endlessly by accountants and economists. It is sufficient to point out that the railroads consider this situation a major inequity.

Barges, likewise, use rivers kept navigable by the Government, and airlines make use of the navigational aids provided by the Federal Government and known as the Federal airways.

The executives of some twenty railroads who testified before the Senate subcommittee last January were generally agreed on what needs to be done to give the rails a fair and equal chance at the transportation business of the country. They suggested that:

1. The excise taxes on transportation should be repealed, to check the diversion of traffic to "private" carriers to avoid the tax.
2. Some way should be found to place passenger service now operated at a loss on a profitable basis or permission should be given to discontinue such service. At present the people who enjoy traveling by train are often able, through their state regulatory commissions, to block a move to abandon service, even though the riders realize they are requiring the road to serve them at a loss. One suggestion has been offered that the communities served might make up the deficit through subsidies. It is argued that the busses are already subsidized by being permitted to use the public highways.
3. Governments, whether Federal, state or local should make sure that trucks, busses, airplanes and barges are paying their fair share of the cost of any public facilities they are permitted to use.
4. The special exemption from regulation of transportation of agricultural products should be repealed or restricted to the type of commodities for which it was intended. The railroads believe that through judicial interpretation "the agricultural exemption has been broadened to a point far beyond the original intent of Congress."
5. The bulk of public transportation should be brought under the same regulation as the common carriers. At present it is estimated that

Domestic Passenger Traffic by Major Carriers
(millions of passenger miles)

Year	Railroads		Busses		Air Carriers		Electric Interurban Railways		Inland Waterways[1]	
	Passenger Miles	% of Total	Passenger Miles	% of Total	Passenger Miles	% of Total	Passenger Miles	% of Total	Passenger Miles	% of Total
1939	22,713	68.0%	9,100	26.0%	683	2.0%	956	2.7%	1,486	4.3%
1941	29,406	62.7	13,100	27.9	1,385	3.0	1,177	2.5	1,821	3.9
1944	95,663	74.2	26,920	20.8	2,178	1.7	2,042	1.6	2,187	1.7
1947	45,972	58.5	23,948	30.4	6,110	7.8	771	1.0	1,845	2.3
1949	35,133	52.8	22,411	33.7	6,753	10.1	842	1.3	1,402	2.1
1952	34,040	49.3	20,500	29.7	12,528	18.1	650	0.9	1,400	2.0
1953	31,179	46.4	19,730	28.9	14,760	21.6	582	0.9	1,487	2.2
1954	29,310	38.4	25,614	33.6	19,568	25.6	157	0.2	1,701	2.2
1955	28,548	36.5	25,117	32.1	22,741	29.0	147	0.2	1,738	2.2
1956	28,200	34.9	24,900	30.9	25,700	31.9	150	0.2	1,700	2.1

[1]—Rivers, Canals and Great Lakes.

Domestic Freight Traffic By Major Carriers
(millions of ton-miles)

Year	Railroads		Inland Waterways		Motor Trucks		Oil Pipe Lines		Air Carriers	
	Ton-Miles	% of Total	Ton-Miles	% of Total	Ton-Miles	% of Total	Ton-Miles	% of Total	Ton-Miles	% of Total
1939	338,125	63.0%	88,897	16.9%	43,931	9.5%	55,602	10.6%	12	[1]
1941	480,730	64.7	130,916	17.6	63,258	8.5	68,428	9.2	19	[1]
1944	745,573	70.1	137,005	12.9	47,395	4.5	132,864	12.5	71	[1]
1947	663,442	67.5	135,964	13.8	77,918	7.9	105,161	10.7	158	[1]
1949	533,862	61.2	130,192	14.9	93,653	10.7	114,961	13.2	235	[1]
1951	654,340	59.1	168,143	15.2	133,160	12.0	152,115	13.7	378	[1]
1952	622,300	57.8	154,900	14.4	140,000	13.0	160,000	14.8	420	[1]
1953	613,171	52.6	180,622	15.5	206,808	17.7	165,728	14.3	427	[1]
1955	631,385	49.4	216,508	17.0	226,188	17.7	203,244	15.9	481	[1]
1956	656,000	49.2	223,000	16.8	230,000	17.3	223,000	16.7	515	[1]

[1]—Negligible.

two-thirds of the commercial motor carrier traffic and 90% of barge transportation is unregulated.

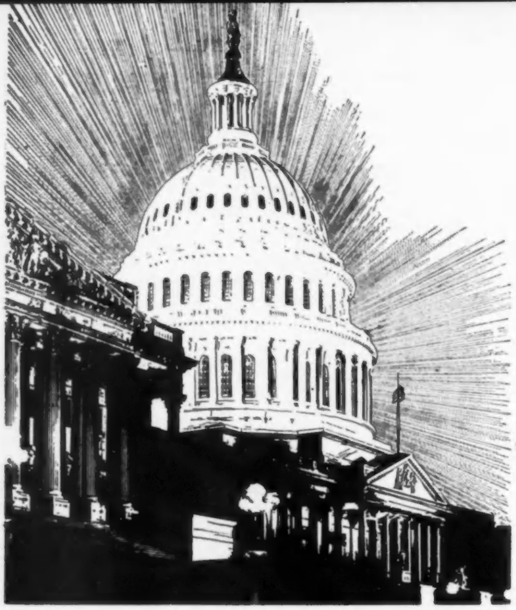
6. Railroads should be permitted much more freedom in rate making, so that within limits prescribed by the Interstate Commerce Commission they could meet price competition from other carriers whenever they believe such action advisable.
7. Railroads should be permitted to engage in other types of transportation.
8. Mergers of railroad companies should be permitted under some circumstances, and not delayed interminably.

Most of these suggestions seem to be fair and reasonable. But the objectives sought are attainable only through legislation or some other type of Government action. Thus the problem becomes political as well as economic. When politics are involved it sometimes makes no difference, at least for a while, that proposals are just. If some organizations, groups or interests are adversely affected (as they invariably are) they will use whatever political influence and power they can command to defeat the measure.

It is an encouraging sign, however, that the Administration has given its support to at least some of the changes suggested by the railroad executives. Secretary of Commerce Sinclair Weeks recently addressed a letter to Senator George A. Smathers, Chairman of the Surface Transportation subcommittee, advocating that ultimate authority to discontinue unprofitable railroad services be transferred from the state regulatory commissions to the Interstate Commerce Commission; that "private carriers" be more carefully defined, to bring under the same regulation all who are actually common carriers; that there be no further expansion of the exemption from regulation of carriers of agricultural commodities; that the I.C.C. in its rate making allow more leeway for service and price competition; and that temporary financial assistance be provided to the railroads by Government guarantee of loans. President Eisenhower added the statement: "All the recommendations should be enacted into law with dispatch," and expressed the hope that "no effort will be spared to achieve this result."

Daniel P. Loomis, President of the Association of American Railroads, found Secretary Weeks' proposals "distinctly disappointing." While they do embody some of the changes the railroads advocated, the Administration measures, in Mr. Loomis' opinion "fail to deal with many of the difficulties of the railroad situation, and treat inadequately most of those with which they do deal."

To those of us who are not directly connected with the railroad industry, however, the letters of Messrs. Eisenhower and Weeks (*Please turn to page* 224)



Inside Washington

By "VERITAS"

WHITE HOUSE appraisal of the Soviet economy places Russia behind the United States but finds the economy there growing at a rate roughly twice as fast as ours. Qualifying factors are noted. Concentration on heavy industry is robbing the consumer goods supply, and housing and agriculture are feeling the effects keenly; the Red regime is winning on guns and losing on butter and other nonmilitary conveniences. Dr. Gabrief Hauge, Presidential adviser, reports more liberal outlook on the part of the intellectuals, managers and technicians which he hopefully cites as possible basis for an eventual society with genuine peaceful aims of a type not now in sight.

WASHINGTON SEES:

Friends of the President who were pleased with his militant approach to the subject of Pentagon reorganization were delighted when he followed up with a call for a much more stringent labor organization code than Capitol Hill had been considering. In the space of about two weeks, Ike had supplied two effective answers to the charge that his Administration "lacks forceful leadership."

President Eisenhower has not hesitated to assert his powers in conflicts with Congress in the past. But while he has "contested" with the lawmakers on general policy and made his disagreement more pinpointed in veto messages, reorganization and labor-management reform probably mark the outstanding examples of coming-to-grips on specifics.

The President will win most, but not all, of what he sought to bring about in reorganization of the military arms. In this case he will be fighting a rather large and very determined bloc of Congressmen, more than taking issue with organized civilian groups. In the case of his demand (this is one of the few instances in which newspaper use of the term "demand" to describe a White House proposal is justified), Ike is taking on the labor unions. As will be the case with reorganization, he won't get all he wants into the labor code. But if the system of regulation is to be improved in the next two years, history must give President Eisenhower and his new, and firmer, attitude a large hand in the achievement.

MARRINER ECCLES, influential New Deal counselor, caused Senate Finance Committee members to blink in disbelief. The former Federal Reserve Board Chairman departed the road map of the Roosevelt-Truman regime, of which he was a major planner. Eccles opposed massive public works programs as too slow to be effective; spoke out for a tax relief program which would lighten the burden on corporate incomes as well as on other taxpayers; and blamed organized labor for grasping a disproportionately large share of the economy and being responsible for price boosts. On the latter point he cited labor's share of the national income has increased 10 per cent while the business share, represented by profits, fell by 33 per cent—and this big change has all occurred since 1950!

RAILROADS are disappointed by the Administration's program to aid them in the complex and competitive transport setup. The report read well for the most part, say spokesmen for the rails: it appeared to extend financial aid, opportunity to drop uneconomic services, and set up a method to adjust rates to meet the bids of rival carriers for traffic. But the big thing was lacking: removal of excises on freight and passenger services. The guaranteed loan plan merely postpones, doesn't solve problems, say the railroad men. And, they complain, the "small type" adulterates the other "benefits." They're still looking to Congress for real relief.

BACKLOG of complete aircraft, engines, propellers ando ther parts and services stood at $14.5 billion at the end of 1957, compared with $18.3 billion at the end of 1956—a decline of 21 per cent. Military orders represented 70 per cent of the backlog, and 80 per cent on engines. New orders received during the final quarter of 1957 amounted to $3.2 billion, or 22 per cent of the total. Meanwhile, the Department of Labor reported, on the basis of January 1958 figures, that aircraft employment was still going downward but average weekly wages were spiralling up. END

As We Go To Press

▶ Congressional concern over the inconsistency of mounting balances in the coffers of Federal agencies while unemployment reaches for new high levels has started a move on Capitol Hill to put the idle money to work. Senator Mike Mansfield of Montana, has prepared legislation which would make it impossible for the White House and the Bureau of the Budget to dam back the flow of appropriated money. The Constitutional right of Congress to appropriate funds amounts to little if the action can be negated "downtown." The right is there. The general powers of the President implies the authority to regard an appropriation as an act fixing a ceiling on spending in the designated areas, but not a mandate to spend. There is provision in many of the larger appropriation bills which allows the President to fix the rate of spending, carry over into succeeding Fiscal Years if he wishes to do so.

▶ Additionally, there is legislation authorizing the Budget Director to establish reserves and effect savings of appropriated funds in order to promote efficiency of operation. He may, if he wishes, under existing law, slow the disbursement on the basis of developments subsequent to the date on which the appropriation was made. Congressmen backing the Mansfield bills contend this gives an appointed bureaucrat, rather than those elected by the people and chargeable with fiscal policy, the right to decide what the Nation's needs are. White House resistance to democratic demands for works programs speedup has brought the issue to a head. Even if the President were to sign a "made work" program, he wouldn't have to spend the money backing up the legislative action.

▶ Senator Lyndon Johnson, Majority Leader, is with Mansfield on this issue. Johnson cited as an example the fact that the White House in order to live within its expenditure ceiling, last year froze $22.3 million out of $32 million voted by Congress for construction of National Guard armories. This is an example of public building which has moved past the planning stage and can be gotten under way with no delay, starting the paychecks moving. The steam generated on Capitol Hill is likely to force release of these funds shortly. If the Mansfield Bill were in effect last year, work on the armories would be in progress today.

▶ The popular assumption that a department is entitled to funds when Congress passes the money bill and the President signs it, is false. The agency still must petition the Budget Bureau to release the money and that's where, many Congressmen believe, a veto power never intended to be exercised, has been set up. The idea is to review developments between the Capitol Hill vote and availability of the money at the beginning of the Fiscal Year. In this manner, supplemental and deficiency appropriations bills can be avoided -- it is hoped. Sometimes the need for the project funded by Congress has evaporated in the intervening months; occasionally an anticipated needs fails to materialize. If there were no review, money would be wasted. But the lawmakers charge the Budget Bureau with substituting a veto for a power of allocation.

▶ There are many case histories. One: Congress voted $250 million last year for domestic military construction. In October, the Pentagon asked the Budget Bureau for permission to spend the money. The program had to be substantially revised when the Director of the Budget refused to come through as per orders of Congress, expressed in the appropriation bill. Not only are funds denied for programs but also a "slow down" in procurement is invoked when the flow of Treasury revenue appears to suggest it. Senator Mansfield summed his concern by commenting that Congress faces "a Constitutional problem which we will have to meet some day if we do not want to see our power steadily eroded as a co-equal branch of the Government."

▶ Senator McClellan's omnibus labor reform bill is being written off as a legislative possibility. It doesn't go far enough to reach some of the basic abuses of organized labor, but it goes too far, the unions complain. In an election year (to repeat a hackneyed phrase of political language) there will be no restrictions passed to which the labor bosses do not subscribe in advance. If the reforms embodied in the McClellan draft are broken down into separate bills, a few may pass: requirement of full accounting for, and disclosure of, union funds; punishment for embezzlement of union funds and destruction of union records. The latter may seem superfluous, since embezzlement already is a crime. However "authorized use" such as came out in the Beck hearings can have the same effect on rank-and-file members. They were not asked to approve such uses.

▶ The McClellan Committee uprooted evidence of enough violence, intimidation, collusion between management and labor, theft, and racketeering to create an entire new section in the Federal Criminal Code. The Committee Chairman attacks only a few abuses, but they are major. One, for example, would require majority approval in a secret ballot before a strike might be called, salaries or expense accounts of officials upped. Weakness in some of the recommendations lies in the fact that, in a professed desire to make labor as responsive as management, restrictions are placed on the former that do not apply to the latter. Salaries and expenses, for example.

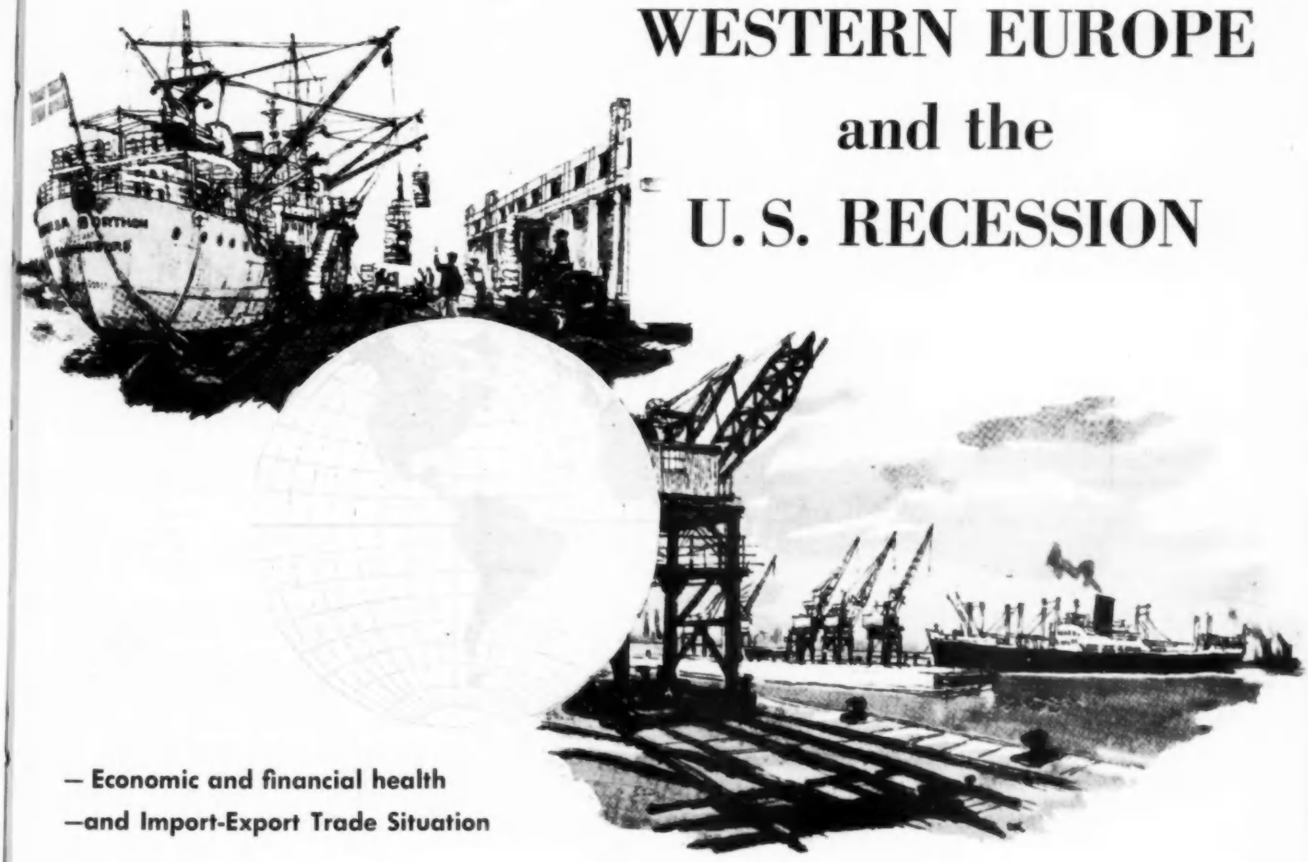
▶ Democrats in Congress have turned Presidential vetoes into what they hope will be powerful propaganda weapons. Departing from the historic course of voting a veto up, or down, they referred the rivers and harbors bill and the farm price freeze bill back to committees for public hearings. This provides a forum for attack on the Administration which is not available when legislation is making its original tour to enactment. Reaction around the country will be carefully sounded; if believed to be favorable to them, the democrats will put post-veto public hearings in the category of standard performance.

▶ It seems quite obvious that the hearings were not calculated to win over enough votes to override the President. The farm bill was passed on a 48 to 32 vote; if all the absentees and abstainers were to join the democrats, they knew the best they could do is a tie -- and that could be broken by Nixon, making it unnecessary to apply the rule that a two-thirds vote is necessary to override. The rivers and harbors bill passed one-sidedly: 52 to 11, with 33 Senators not voting. But even with those starting odds, proponents agreed they couldn't override. So the purpose of the hearings is obvious: propaganda.

▶ The small business man (not legislatively defined) is getting an uncommon share of attention in the halls of Congress. Most of the action has to do with complaints that the little fellow isn't getting his due in government procurement. It makes good reading and spreads the crusader role rather thinly although there is some evidence that the "little fellows" aren't doing too badly, across the board. Defense contract awards are uniformly made to well-known producing companies; the little fellows don't bid on prime contracts and naturally their names do not appear. But there is no plane, missile, or armament contractor who produces all components; he "farms" out much of the work. A contract award to one of the recognized "big" companies frequently means business not only for that firm but also for a score of servient suppliers.

▶ The virtual monopoly the democrats have had on "protecting" the small business man, now is being challenged by the republicans. William M. Martin, chairman of the Federal Reserve Board has been working with the Senate Small Business Committee on a measure to create a Small Business Investment Administration and give it a revolving $250 million loan fund. Senator Edward J. Thye, Minnesota republican and White House confidant has introduced another small business measure: it expands SBA existing authority and adds $200 million to its strong box. If the first of these bills falls before an antipathy toward new agencies, the second overcomes the objection. Either way, the "little fellow" would know where to bestow credit for his financial crutch. Under either system, a policy board would write and administer the rules: the Secretaries of Commerce and Treasury, and the SBA Administrator.

WESTERN EUROPE and the U. S. RECESSION



— Economic and financial health
—and Import-Export Trade Situation

BY JOHN H. LIND

AS America's third postwar recession continues to lumber on, two anxious multi-billion dollar questions are being asked with increasing frequency on both sides of the Atlantic. In Europe, business men and government officials are apprehensively scanning the sky for signs of whether the foul business climate that has engulfed the world's largest trading area will remain within the U.S. borders or will it cross the Atlantic. On this side of the world there is equal apprehension of whether exports to Europe will once again act as a counter-cyclical force to the domestic economic decline or whether the levelling off of Europe's boom will cause a fall in our foreign sales, thus compounding our domestic adversity.

The Importance of U.S.-European Trade

Both these questions are worth pondering. For U.S.-European trade is no minor factor in the economy of either area. In 1957 America shipped $4.3 billion worth of commercial exports to Europe, or one percent of our gross national product. Next to Canada, Western Europe is now our largest foreign market, accounting for 22 percent of the United States' total non-military exports. It is the world's fastest growing and, next to the U.S. itself, the richest market.

America's economic importance to Europe is also considerable. Last year, $2.2 billion of goods made the westward trip across the Atlantic to our shores. Though this was equivalent to only about 17 percent of Europe's total exports, its real impact was much bigger, since it contributed most significantly toward the closing of Europe's perennial dollar gap.

In addition to these direct exchanges of goods, both areas influence each other indirectly through their respective trade with Latin America, Asia and Africa. Most countries in that part of the world can buy Europe's and America's manufactured goods only if they can sell their raw materials there. Thus, a decline in either area's commodity purchases is likely to result in a cut-back of the world's underdeveloped countries' total imports.

Previous U.S. Recessions

It is clear therefore that the interaction of the economic climate between Western Europe and the

Trade of western Europe by areas

Millions of current dollars, imports c.i.f. and exports f.o.b., and volume indices (1953 = 100)

Area of origin or area of destination	Current values				Volume indices			
	1953	1954	1955	1956	1954	1955	1956	1957[1]
IMPORTS								
Western Europe	15,219	16,713	19,131	21,136	114	125	135	140
Eastern Europe	913	1,039	1,359	1,630	123	150	173	189
United States	3,207	3,547	4,809	5,737	116	153	174	218
Canada	1,293	1,119	1,389	1,483	91	108	110	104
Latin America	2,222	2,493	2,576	2,990	114	118	140	159
Overseas sterling area	6,440	6,472	7,078	7,088	101	110	112	113
Affiliated overseas areas[2]	2,013	2,162	2,277	2,440	110	112	116	113
Rest of world	1,678	1,759	1,894	1,549	103	111	121	116
Total	32,985	35,304	40,513	44,053	110	123	133	141
EXPORTS								
Western Europe	14,932	16,330	18,817	20,451	112	125	134	140
Eastern Europe	790	974	1,102	1,318	122	128	152	168
United States	2,214	1,952	2,318	2,839	93	111	128	129
Canada	600	531	592	777	98	109	131	140
Latin America	1,622	1,933	1,990	2,058	121	121	124	142
Overseas sterling area	4,476	4,886	5,337	5,637	113	127	124	133
Affiliated overseas areas[2]	1,829	2,013	2,197	2,220	115	123	120	132
Rest of world	2,049	2,065	2,167	2,453	103	106	118	117
Total	28,512	30,684	34,520	37,753	111	122	130	138

United States is of primary importance to both areas. In assessing its significance in the present situation one is tempted to look for clues to the recent past. After all, there were two previous postwar recessions in the United States. What happened to U.S.-European trade then? Well, our mild recession of 1948/49 did affect European exports adversely, both directly and indirectly through the trade of third countries, particularly those of the sterling area. Yet, the early recovery in the United States as well as the significant currency devaluations throughout Europe in 1949 gave a fresh impetus to the area's exports. But the major element in the revival of European demand in late 1950 was the sharp increase in defense expenditure following the outbreak of the Korean war. Neither of these two last elements is present in the current situation. No person in his right mind advocates an armed conflict, or even an increase in armament expenditures, just for the purpose of combatting the reces-

Rate of economic growth in western Europe

(Percentage changes)

Country	Gross national product at constant prices		Industrial production: Total		Metal-using		Textiles		Chemicals	
	1949 to 1953[1]	1953 to 1957[2]	1949 to 1953[1]	1953 to 1957[2]	1949 to 1953[1]	1953 to 1957[2]	1949 to 1953[1]	1953 to 1957[2]	1949 to 1953[1]	1953 to 1957[2]
Austria	5.9	7.7	8.5	9.8	7.8	11.4	7.1	7.0	6.0	8.6
Western Germany	8.7	7.7	11.6	10.1	15.5	13.2	9.1	7.4	12.7	11.4
France	4.0	5.6	5.0	9.4	7.1	11.3	2.8	6.1	6.1	12.7
Greece	5.8	5.6	13.1	10.3	17.2	17.4	12.7	2.9	10.1	10.8
Italy	6.2	5.4	10.1	8.1	10.1	6.5	2.4	3.3	16.1	11.6
Finland	3.4	4.9	5.7	8.3	6.9	7.7	4.2	10.0	9.7	9.7
Switzerland	3.4	4.8	....	....	....	....	....	....	....	....
Netherlands	4.0	4.6	6.4	6.1	8.2	8.6	6.6	3.0	6.8	7.5
Yugoslavia	0.4	4.6	1.9	13.7	8.2	10.6	−7.5	13.7	2.7	26.0
Portugal	3.9	4.4	....	....	....	....	....	....	....	....
Sweden	2.9	3.4	2.4	4.6	−0.9	3.8	0.4	0.1	5.1	....
Norway	4.0	3.3	6.6	6.2	8.0	5.8	2.9	3.0	11.7	6.6
Belgium	3.8	3.3	2.3	7.0	1.0	10.5	3.9	5.8	1.6	8.8
United Kingdom	2.5	2.9	3.5	3.5	4.6	4.3	1.3	0.2	8.8	6.1
Turkey	11.5	1.4	9.1	8.6	....	....	4.3	6.9	....	....
Denmark	3.6	0.9	3.2	3.7	4.1	5.7	1.8	−3.5	3.2	4.2
Ireland	1.9	−0.1	5.7	1.4	1.8	2.9	8.2	4.2	3.9	3.6
Total of countries listed	5.2[3]	4.9[3]	6.1	7.7	7.5	10.3	4.1	2.9	11.4	10.3

NOTE—Countries are listed according to the rate of increase of gross national product from 1953 to 1957.

1—1950 to 1953 for Finland, western Germany and Turkey.
2—1953 to 1956 for Belgium, Denmark, Greece, Ireland, Portugal, Switzerland and Turkey, and for total.
3—Excluding Finland and Yugoslavia.

sion. A devaluation of European currencies is almost equally unlikely.

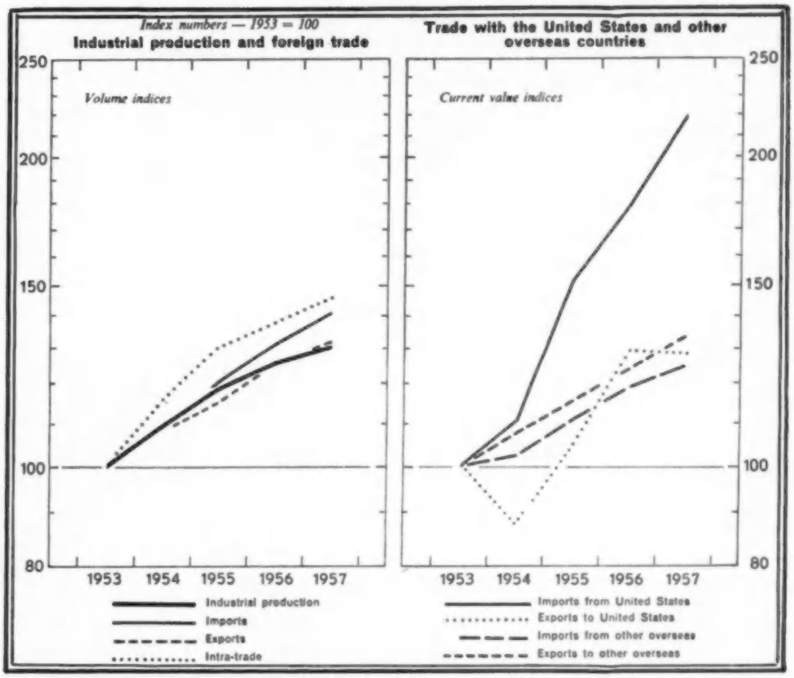
The second recession in the U.S. (1953/54) had even less of an impact on Europe than the first. Europe's expansion continued unabated throughout it, with the result that American export to Europe was the only major business sector in the U.S. totally unaffected by the general decline. In fact, the 2 percent rise in our exports in 1953/54, in the face of a 10 percent decline in our gross national product, was a "significant factor supporting the economy during those two years", according to the U. S. Department of Commerce.

One of the main reasons for the European upswing despite the American decline was the fact that Europe itself had just come out of a recession during which its inventories had been depleted, its consumer purchases had been curtailed and its business expansion programs had been postponed. This European recession had taken place in 1952/53 while the American economy was still functioning in high gear, due to the Korean war. Thus, *between* 1952 *and* 1954 *the* business cycle fluctuations in Europe and the United States did not coincide but, instead, complemented each other so that the decline in one area always occurred simultaneously with the recovery in the other. The results were an acceleration in the recoveries from recessions in both areas.

The Current Recession

Now let us look at 1957/58. Is Europe again in a different phase of the business cycle than the United States or are both, for the first time since the war, simultaneously moving downwards? There are some indications that this could be the case. For one thing, both Europe and America have gone through a long and steady phase of business expansion. In Europe this expansion started in 1953 and has continued through 1957. This is the longest uninterrupted period of prosperity since World War I. Yet, in both 1956 and 1957 the continent's overall economic increase was slower than in the previous year. Such a slowing down in the rate of increase is usually a sign that the boom phase of the cycle is about to come to an end. It is therefore logical to assume that the next phase will be a decline or at least a levelling off in Europe's economic growth. Since European exports to overseas areas have been a dynamic factor throughout the boom phase, any decline in exports as a result of the U.S. recession is likely to accelerate the end of the business boom in Europe. That this may well be in the cards is shown by the definite decline of U.S. imports in the first three months of 1958 as compared to the same period of last year. European exports to other overseas areas do not yet seem to have been adversely affected.

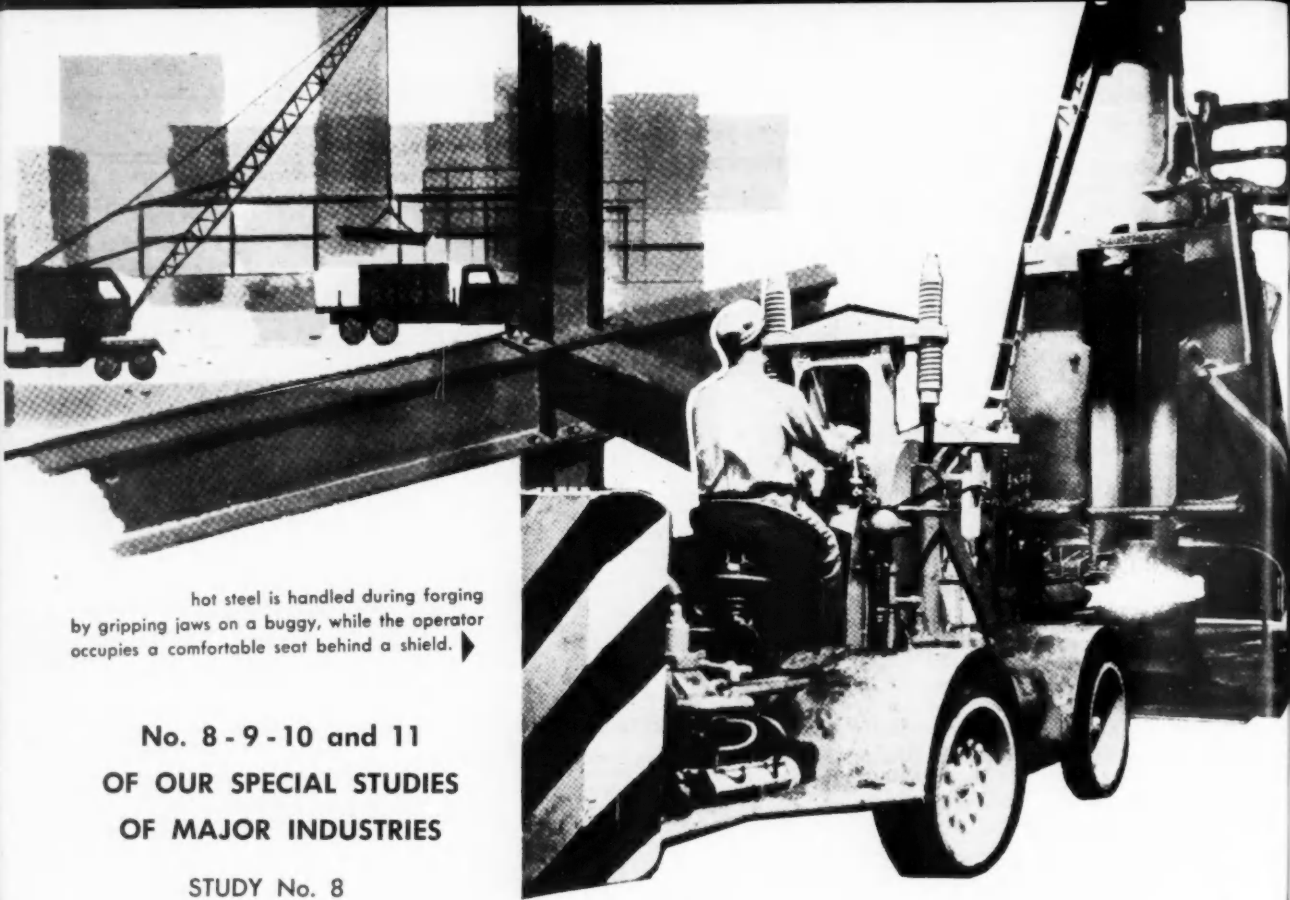
INDUSTRIAL PRODUCTION AND TRADE OF WESTERN EUROPE



But—again as a result of the U.S. recession—there has been a serious weakening of world commodity prices which cannot help but affect the purchasing power of these areas.

Not Inevitable

Yet, despite these undeniable unfavorable factors a world-wide recession is by no means inevitable. For though the European business expansion is doubtlessly beginning to level off, we must remember that it has still some momentum left. In other words, as of this moment, *Western Europe has still not reached the declining phase of the cycle.* It seems rather that it is approaching a plateau on which it will rest a while. Whether it will descend or ascend from this plateau can not yet be forecast, except that it will depend to a large extent on the duration and intensity of the American recession. If a domestic recovery becomes evident within the next few months and if no new serious restrictions on U.S. imports are put into effect by a recession-panicked Congress, the American slump will have been but a minor interlude in the free world's economic growth. If, on the other hand, U.S. business activities should continue to decline for the remainder of this year it would definitely lead to a further sharp decline in this country's imports, accompanied by the reappearance of a sizeable dollar gap and an additional decline in world commodity prices. The sum total of these developments would be nothing less than a world-wide recession whose political consequences are not pleasant to contemplate. Right now such a development is only a possibility. Eight months from now it will either be an impossibility or a strong probability. (*Please turn to page* 225)



hot steel is handled during forging by gripping jaws on a buggy, while the operator occupies a comfortable seat behind a shield.

No. 8 - 9 - 10 and 11
OF OUR SPECIAL STUDIES
OF MAJOR INDUSTRIES

STUDY No. 8

The GREAT STEEL INDUSTRY —BELL-WETHER OF PROGRESS

Outlook for the 2nd and 3rd Quarter

BY H. F. TRAVIS

The steel industry has sustained the most severe decline in its operations since the depression of the 1930's. This has resulted from reductions in private capital investment programs in many industries, as well as from reduced buying of autos, appliances and other consumer durables. A third factor has been the tendency of steel users to reduce the inventories of metal. As a result, steel production has contracted over 50 per cent from the top, while the index of industrial activity has declined only 12 per cent.

While inventory reductions may come to at least a temporary halt late in the second half, the recession in capital investments and in consumer durables may not be corrected soon. Hence, there is a good likelihood that steel operations will remain at levels well below the average post-war rate, for a year or more. For example, an average rate of 60 to 64 per cent of capacity for 1958 is forecast by most steel executives, and achieving of even such an average will require a substantial upturn in the third and fourth quarters, which may be hard to achieve.

Next year, the operating rate may temporarily rise in the first half, if steel users start to stock more steel as a hedge against a possible steel strike in mid-1959, when the present three year contract with the United Steel Workers expires. But an inflationary steel strike is not the answer to the steel industry's long range problems. What is needed is an increase in steel consumption, which would absorb the additional steel capacity created at a cost of $9.9 billions since the end of World War II.

Industry's Problems Run Deep

The problems facing the steel industry are impressive. An early solution to some of them seems difficult to achieve.

75 3.00

Comparative Earnings and Dividend Records of Leading Steel Companies

	Earnings Per Share 1956	Earnings Per Share 1957	Earnings Per Share 1st Quarter 1957	Earnings Per Share 1st Quarter 1958	Dividends Per Share 1956	Dividends Per Share 1957	Recent Price	Div. Yield	Price Range 1957-1958
Acme Steel	$2.94	$2.40	$ .94	$ .16	$2.00	$1.00[2]	20	5.0%	33⅝-19⅜
Allegheny Ludlum Steel	4.04	3.02	1.25	.19	2.00	2.00	33	6.0	65⅜-28⅜
Armco Steel	6.03	4.59	1.29	.75	2.55	3.00	44	6.8	65½-39⅝
Bethlehem Steel	3.83	4.13	1.24	.52	2.12	2.40	39	6.1	50⅝-33⅝
Carpenter Steel	6.79[1]	8.00[1]	(NA)	(NA)	2.80	3.00	44	6.8	74⅞-39½
Colorado Fuel & Iron	3.58	4.04	1.30	(d) .45	2.00	[2]2.00[3]	19	10.5	33⅜-18¼
Copperweld Steel	3.72	2.41	.80	(NA)	2.00	2.00	22	9.0	40⅜-20
Crucible Steel	3.51	1.73	.93	.05	1.50	.40[2]	17	2.3	40⅛-15⅝
Detroit Steel Corp.	2.78	.90	.31	(d) .12	1.00	.50[2]	9½	5.2	22⅞- 8¾
Eastern Stainless Steel	3.75	2.55	1.09	(NA)	1.50	1.50	34	4.4	60¾-24⅞
Granite City Steel	7.04	4.64	1.59	.95	2.50	1.60	32	5.0	59⅝-26¼
Inland Steel	9.43	10.34	2.59	1.40	4.25	4.50	81	5.5	99½-65
Interlake Iron Corp.	3.58	3.08	.77	.32	2.00	1.40[2]	19	7.3	35½-18
Jones & Laughlin Steel	6.63	5.65	1.89	.17	2.50[3]	2.50[3]	36	6.9	64⅛-35
Keystone Steel & Wire	5.38	4.52	1.10	....	2.00	2.00	32	6.2	43¼-29½
Lukens Steel Co.	7.87	10.61	3.53[1]	1.54[5]	2.00	2.25[2]	64	3.5	122⅝-45¾
National Steel	7.09	6.13	1.82	.51	4.00	3.00[2]	50	6.0	80¼-47⅛
Pittsburgh Steel	3.24	1.80	1.10	....	1.00[3]	[4]	15	....	37¼-14
Republic Steel	5.83	5.45	1.81	.55	2.62½	3.00	40	7.5	59¾-37
Sharon Steel	6.28	3.68	1.45	(d) .26	3.00	1.40[2]	23	5.0	58⅛-25
U. S. Steel	6.01	7.33	2.03	1.04	2.60	3.00	59	5.0	73½-38¼
Wheeling Steel	8.20	5.32	2.12	.03	3.00	2.00[2]	36	5.5	69¾-33¼
Youngstown Sheet & Tube	12.62	12.85	3.09	1.04	4.50	5.00[2]	80	6.2	123½-66½

[1]—Year ended June 30. [2]—Indicated current annual rate. [3]—Plus stock. [4]—Directors 1/20/58 took no div. action. [5]—12 weeks 3/27. (d)—Deficit. (NA)—Not available.

Acme Steel: Continued dependence on automotive industry poses problem in view of sharp drop in passenger car output. Further cut in dividend, which was reduced early in year, may prove necessary unless sales pick up soon. (B3)

Allegheny Ludlum Steel: Despite sustaining influence of stainless types, indications point to sharp downtrend in output through first half of year at least. Possibility of dividend cut taken into account. (B3)

Armco Steel: Merger with National Supply increases near-term problems, coming at time when auto steel demand is greatly reduced and slackening in pipe line projects has adverse effect on volume in pipe. (A3)

Bethlehem Steel: Setback in many steel consuming areas complicated by widespread cancellation of tanker orders, bringing about reduction in shipyards. Another poor quarter might pose threat to dividends. (A3)

Carpenter Steel: Despite substantial drop in sales and earnings indicated for fiscal year ending June 30, satisfactory coverage is indicated for $2 dividend rate. Outlook for stainless shows improvement. (B3)

Colorado Fuel & Iron: Although some recovery in operating activity has been reported, net profit for first half of year is expected to show sizable drop from 1957, and adverse showing has led to dividends in stock. (B3)

Copperweld Steel: Further shrinkage in sales and earnings indicated for 1958, suggesting doubt over present $2 dividend. Lower raw materials costs a favorable factor, but competition holds down margins. (C3)

Crucible Steel: Moderate upturn in demand for tool steel and specialties, along with stainless, provides some encouragement, but loss of market resulting from Armco-National Supply merger is in prospect. (B3)

Detroit Steel: Slump in sales to automotive industry contributes to poor earnings outlook and raises doubt over reduced dividend rate. Economies afforded by modernization of facilities fail to help materially. (C3)

Eastern Stainless Steel: Recovery in volume in stainless plate for military requirements likely to help sustain earnings in June quarter and encourage hope for continuing $1.50 dividend. New facilities lower costs. (C3)

Granite City Steel: Although economies gained through modernization program and expansion of productive capacity help counteract rising costs, reduced customer demand presents serious handicap. Another dividend cut possible. (B3)

Inland Steel: Relatively better demand for steel in Chicago area helped to sustain operations in early months of year, but dividend coverage hardly is satisfactory unless results improve. Among strongest units in industry. (A3)

Interlake Iron: Decline in operations of major steel producers poses problems for this large supplier of merchant pig iron. Strong financial position offsets to some extent prospect of sharp earnings drop. (B3)

Jones & Laughlin: Extensive enlargement of facilities is nearing completion at time when industry has excessive capacity. Basic position is being strengthened for long-range competition. Dividend cut possible. (B3)

Keystone Steel & Wire: Emphasis on wire products tends to sustain volume, but indications point to further contraction in output. Strong financial position should serve to sustain dividend prospects. (B3)

Lukens Steel: Good demand for stainless plate presents favorable aspect at time when marginal steel producers are likely to feel pinch of reduced sales volume. Further moderate dividend reduction indicated. (B3)

National Steel: Good record accounts for relatively high appraisal of earnings in cyclical industry. Heavy dependence on auto industry is a current adverse factor. Reduced dividend expected to hold. (A3)

Pittsburgh Steel: Costly expansion and modernization of facilities should strengthen company's competitive position, but marginal status imposes handicap for time being. Resumption of dividends not imminent. (C3)

Republic Steel: Another major supplier of raw materials for automotive and appliance industries which feels effect of recession in reduced sales. Unpromising outlook for near term jeopardizes liberal dividend rate. (B3)

Sharon Steel: Expansion in stainless and alloy steels hold promise for future, but marginal position is proving handicap in current setback. Earnings prospects suggest possibility of further dividend cut. (B3)

U. S. Steel: Benefits of modern facilities in Fairless Works and removal of high-cost facilities should help sustain earning power. Wider coverage seems necessary to assure continuance of $3 annual rate. (A3)

Wheeling Steel: Emphasis on flat-rolled products accounts for unsatisfactory showing, but enlarged and improved facilities help counteract rising costs. Recent reduction in dividends to $2 annually may hold. (B3)

Youngstown Sheet & Tube: Slowdown in petroleum industry indicates reduced demand for tubular products. Prolonged contest over proposed merger with Bethlehem expected. Strong financial position is a feature. (B3)

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Among the industry's major obstacles are the following:

1. The present operating rate, even for the most efficient producers, is far too low to afford a satisfactory margin of profit in relation to investments in plants. Backlogs of unfilled orders have declined sharply.

2. The decline in the demand for steel is traceable to basic problems facing most of the major steel consuming industries. For example, purchases of steel rails and of plates for freight cars by the railroads have been reduced drastically, because of the drop in earnings of the carriers. The auto industry is encountering price resistance from car buyers. Appliance makers face a satisfied market. The pipe line industry's confidence has been shaken by an adverse court decision on rates. Home construction is subnormal, partly because family formation is at the lowest point in many years. The solution of each of these problems may take deep thought—and time.

3. Until this year, the steel industry has been able to offset higher costs with price rises. In the present highly competitive market, with steel consumers strongly resisting higher costs, any relief for higher labor costs will be partial relief, at best.

4. The steel industry makes a basic commodity that is vital to the life and defense of the nation. Much as it would like to stop further wage cost rises it finds it difficult to do so without risking a disastrous strike. Furthermore, it is committed under its present three year contract to grant an additional increase of 20 cents an hour on July 1, 1958. In the past, it has not been able to offer effective resistance to the militant United Steel Workers, which has pushed wages and steel prices to higher and higher levels.

5. European steel producers, with far lower labor costs, have been underpricing American steel in the world markets. The decline in export sales, and the price cuts instituted by American producers in the overseas markets, have cut their net profits this year.

6. Earnings declines have forced several steel companies to reduce dividend payments. Other dividend cuts may be necessary.

Some Constructive Factors

There are some constructive factors in the picture, too, but at the moment they seem likely to make their weight felt slowly, at best. They include the following:

1. The industry has apparently made substantial headway in reducing its break-even point. Major producers such as U.S. Steel, Bethlehem, Armco, Jones & Laughlin, Republic, National and Inland, appear to be able to make a profit with operations below 45 per cent of capacity. Unfortunately, operations in some cases are only slightly above the break-even point. But any gain in production would yield excellent gains in profits.

2. Steel capacity is available for record-breaking business, when the depression ends. Present capacity of 140.7 million tons is 23.7 million tons in excess of industry's greatest production in one year—in 1955, when 7.9 million autos were produced. It may be several years however, before present steel capacity will be fully needed.

3. Prices of scrap, an important raw material, are $25 to $30 a ton lower than they were at the peak a year or two ago. This is one of the important factors in the present abnormally low steel break-even point. Unfortunately, when steel operations rise, the price of scrap will go up, because the demand for it will be greater.

4. Steel operations have declined three times as fast as the dip in the Federal Reserve Board index of industrial production. Steel is off over 50 per cent from the peak, whereas the FRB index at 128 was down only 19 points or about 13 per cent from the peak. This discrepancy is accounted for largely by heavy inventory reductions by steel users. If the FRB index levels off at the present rate for any length of time, or if it goes up, steel production should increase. However, any further dip in the FRB index might be attended by additional inventory cuts by steel users.

Improvement May Be Short-Lived

Steel executives have, in recent months, found it necessary to revise their predictions of an upturn. In January, they thought at least a seasonal rise would occur in March. But in March, the operating rate only dropped further. April brought more disappointments, as the auto industry drastically cut production of cars and virtually stopped buying steel. Now the steel industry is talking of a gain in demand

Comprehensive Statistics Comparing

Figures are in millions, except where otherwise stated	Allegheny Ludlum Steel	Armco Steel†
CAPITALIZATION:		
Long Term Debt (Stated Value)	$ 37.9	$ 114.2
Preferred Stocks (Stated Value)	......	......
No. of Common Shares Outstanding (000)	3,852	14,493
Capitalization	$ 41.7	$ 259.2
Total Surplus	$ 103.2	$ 471.6
INCOME ACCOUNT: Fiscal Year Ended	12/31/57	12/31/57
Net Sales	$ 266.5	$ 776.7
Deprec., Depletion, Amort., etc.	$ 11.0	$ 34.6
Income Taxes	$ 13.4	$ 54.3
Interest Charges, etc.	$ 1.4	$ 2.1
Balance for Common	$ 11.6	$ 55.0
Operating Margin	9.5%	12.6%
Net Profit Margin	4.3%	7.8%
Percent Earned on Invested Capital	10.9%	10.8%[2]
Earned Per Common Share*	$ 3.02	$ 4.59
BALANCE SHEET: Fiscal Year Ended	12/31/57	12/31/57
Cash and Marketable Securities	$ 20.3	$ 105.4
Inventories, Net	$ 54.2	$ 230.8
Receivables, Net	$ 12.8	$ 98.9
Current Assets	$ 88.7	$ 435.3
Current Liabilities	$ 28.4	$ 128.6
Working Capital	$ 60.3	$ 306.7
Current Ratio (C. A. to C. L.)	3.1	3.4
Fixed Assets	$ 84.2	$ 348.3
Total Assets	$ 175.5	$ 880.0
Cash Assets Per Share	$ 5.28	$ 7.27
Inventories as Percent of Sales	20.3%	22.8%[3]
Inventories as % of Current Assets	61.2%	55.5%[3]

*—Data on dividend, current price of stocks and yields in supplementary table on preceding page.

paring the Position of Leading Steel Companies

Bethlehem Steel	Granite City Steel	Inland Steel	Jones & Laughlin	Lukens Steel	National Steel	Republic Steel	U. S. Steel	Wheeling Steel	Youngstown Sheet & Tube
$ 171.2	$ 37.8	$ 175.8	$ 135.0	$ 2.0	$ 111.7	$ 75.9	$ 216.5	$ 41.4	$ 95.5
$ 93.3	$ 1.9	......	$ 29.3	......	......	......	$ 360.2	$ 35.2	......
44,644	2,127	5,692	7,785	953	7,421	15,595	53,754	1,936	3,441
$ 789.1	$ 66.3	$ 281.3	$ 142.3	$ 5.2	$ 186.0	$ 232.2	$1,472.7	$ 96.0	$ 206.1
$ 968.8	$ 52.4	$ 301.3	$ 405.7	$ 37.8	$ 365.1	$ 541.1	$1,741.6	$ 140.9	$ 325.7
12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57
$2,603.7	$ 123.7	$ 763.9	$ 837.5	$ 130.4	$ 640.9	$1,227.5	$4,378.2	$ 245.8	$ 679.8
$ 110.6	$ 4.8	$ 17.2	$ 44.2	$ 1.8	$ 46.2	$ 40.7	$ 280.4	$ 15.3	$ 40.3
$ 175.0	$ 8.4	$ 60.5	$ 39.9	$ 13.5	$ 43.5	$ 89.6	$ 406.0	$ 10.1	$ 32.6
$ 7.7	$ 1.4	$ 4.9	$ 4.7	$ .2	$ 3.9	$ 1.2	$ 7.0	$ 1.4	$ 3.2
$ 184.4	$ 9.8	$ 58.8	$ 43.9	$ 10.1	$ 45.5	$ 85.0	$ 394.1	$ 10.3	$ 42.5
13.5%	17.9%	15.1%	10.3%	17.9%	13.5%	13.8%	18.1%	8.0%	11.2%
7.3%	8.0%	7.7%	5.4%	7.7%	7.1%	6.9%	9.5%	4.9%	6.2%
11.9%	12.3%	14.4%	8.8%	24.6%	10.3%	12.1%	13.9%	6.1%	9.7%
$ 4.13	$ 4.64	$ 10.34	$ 5.65	$ 10.61	$ 6.13	$ 5.45	$ 7.33	$ 5.32	$ 12.35
12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57
$ 478.6	$ 10.7	$ 86.3	$ 87.7	$ 5.7	$ 62.5	$ 57.8	$ 527.3	$ 34.4	$ 104.6
$ 415.9	$ 33.8	$ 129.2	$ 119.7	$ 16.6	$ 88.0	$ 224.7	$ 650.9	$ 74.3	$ 121.7
$ 219.4	$ 5.2	$ 44.0	$ 53.4	$ 7.1	$ 51.9	$ 60.5	$ 255.6	$ 11.9	$ 65.6
$1,114.0	$ 50.2	$ 259.7	$ 261.0	$ 33.3	$ 202.5	$ 343.1	$1,433.0	$ 122.0	$ 292.0
$ 437.4	$ 17.7	$ 72.9	$ 118.0	$ 11.8	$ 84.4	$ 130.9	$ 753.4	$ 35.3	$ 91.1
$ 676.6	$ 32.5	$ 186.8	$ 143.0	$ 21.5	$ 118.1	$ 212.2	$ 679.6	$ 86.7	$ 200.9
2.5	2.7	3.5	2.2	2.9	2.4	2.6	1.9	3.4	3.2
$ 940.1	$ 89.9	$ 378.9	$ 524.6	$ 20.2	$ 423.6	$ 502.1	$2,109.5	$ 150.0	$ 276.5
$2,260.3	$ 158.9	$ 663.1	$ 799.2	$ 57.7	$ 670.8	$ 929.8	$4,074.0	$ 284.0	$ 636.0
$ 10.72	$ 5.07	$ 15.17	$ 11.27	$ 6.05	$ 8.43	$ 3.71	$ 9.83	$ 17.77	$ 30.41
15.9%	27.3%	16.9%	14.3%	12.7%	13.7%	18.3%	14.9%	30.2%	17.8%
37.3%	67.4%	49.9%	45.1%	50.0%	43.4%	65.5%	45.4%	60.9%	41.7%

†—Pro-Forma bal. sheet items after merger with Nat. Supply Co. 12/31/57.
2—On capital prior to merger.
3—On inventory prior to merger.

in late August, when the auto industry is scheduled to begin buying of steel for 1959 model cars.

When and if such an upturn occurs, it will not necessarily mean that the steel industry is out of the woods. If a disappointing reception is given to the 1959 model automobiles, a new wave of cutbacks in steel and autos could take place in November and December, assuming that other steel consuming industries, such as construction, pipe lines and machinery, do not revive quickly.

Thus far, the major steel stocks such as U.S. Steel, Bethlehem, Armco, Inland, etc. have given up only a small proportion of their sharp rise during the period from 1954 to 1957.

It is apparent that the good earnings' performance by these steel companies in the recession of 1954, and their present ability to stay in the black with operations below 50 per cent of capacity, has somewhat improved the investment ranking of such securities, compared with their prewar rating. Steel is no longer regarded as "Prince or Pauper".

But the current assessment of steel stocks is apparently still based on the assumptions that the recession will be a brief one, that inflation is still the dominant force, and that new peaks of production and earnings lie ahead in the 1960s. If any of these assumptions is wrong, then the present values placed by the market on steel stocks are too high.

Inadequate Depreciation Distorts Profits

The conservative investor cannot help but wonder whether at least part of the record-breaking profits of the steel industry in recent years have not been "phantom profits". Since 1950, investments in new facilities by the industry have averaged over $1 billion a year. These high investments have been necessitated in large part by the need to replace obsolete plants which were built when the dollar was worth more than twice its present value. Faced by the forces of inflation, the steel industry has not been able to depreciate its older plants on a realistic basis, but has had to set aside a large share of its undistributed profits to provide the funds for the replacement of wornout plants. Furthermore, cash flow from depreciation is steadily declining, owing to the phasing out of five year accelerated amortization, granted on defense-needed facilities, from 1951 until 1956. Unless Congress liberalizes present depreciation allowances for tax purposes, a larger share of undistributed profits in the future will have to go for the replacement of plants.

Meanwhile, the steel industry is reducing its capital investment program (*Please turn to page* 224)

STUDY No. 9

AUTO INDUSTRY MUST ADJUST TO REALITIES

—Shorter Term—Longer Term

BY GEORGE L. MERTON

THE auto industry has been hit hard by the general recession this year, as well as by increased consumer resistance to the higher prices that have come each year since 1945, owing to higher costs.

Looking ahead, the industry is hoping that its 1959 model cars and trucks will regain at least part of the ground lost this year. It is also hoping that a general improvement in economic conditions in the second half or in 1959 will provide an additional stimulus. Farther ahead, in the 1960s, the industry sees new peaks in volume, as a result of new family formation, more two car families, etc.

But some of the problems facing the auto makers may prove to be rather stubborn for the next two or three years. A quick return to the record-breaking volume of the period 1955-1957 may not be easy to accomplish. Hence dividend payments of at least two of the Big Three may have to be reduced this year.

Here are the industry's major problems:

• Year by year a militant labor union has forced it to raise prices. A test looms in current collective bargaining over whether employers can stop this trend.

• The price resistance thus created has reduced sales of American cars. It has also facilitated sharply higher sales of small low priced European cars, with a wheelbase of 90 to 108 inches. The American producers – except American Motors – abandoned this small car field many years ago, and they would have to reinvest hundreds of millions of dollars to re-enter it.

• Federal excise taxes on domestic cars have heightened price resistance.

• A downward movement in car prices and car sizes, if touched off by low sales and keen competition, could easily cut auto makers' profits per car below the levels of 1954-1957, even if it resulted in some volume gains.

• There is no assurance that new small American cars offering economy, would compete effectively with similar competitive European cars offering the glamor of an imported label.

• The consumers' buying habits have changed,

Leading Automotive and Truck Manufacturers

	Earnings Per Share 1956	Earnings Per Share 1957	Earnings Per Share 1st Quarter 1957	Earnings Per Share 1st Quarter 1958	Dividends Per Share 1956	Dividends Per Share 1957	Recent Price	Div. Yield	Price Range 1957-1958
American Motors	$[d]3.48	$[d]2.12	$[d] .94	$1.31	......	......	11	......	11¼- 5¼
Chrysler	2.29	13.75	5.34	[d]1.74	$3.00	$3.00[1]	45	6.6%	82¼-45
Ford Motor	4.38	5.19	1.85	.42	2.40	2.40	38	6.3	59⅝-35⅞
Fruehauf Trailer	.94	.21	.20	....	1.00[3]	......[2]	11	....	24¼- 8¾
General Motors	3.01	2.98	.93	.65	2.00	2.00	36	5.5	47½-33⅛
International Harvester	3.16	2.88	.51	.39	2.00	2.00	29	6.8	38¾-25⅝
Mack Trucks	4.75	3.90	1.18	.44	[4]	1.80	24	7.5	32¾-19¾
Studebaker-Packard	[d]6.73	[d]1.73	[d] .39	......	......	......	3½	......	8¼- 2⅝
White Motor*	7.05	6.66	1.79	1.27	2.85	3.00	44	6.8	53⅝-34¾

[d]—Deficit.
[1]—Indicated current rate.
[2]—Directors 10/17/57 took no div. action.
[3]—Plus stock.
[4]—Paid 5% stock in 1956 & 10% in 1955.
*—White Motor 3/28/58 bought certain assets of Diamond T Motor.

American Motors: Production is exceeding the break even point by a considerable margin. Good near-term earnings, however, must be appraised against likelihood that at least one Big Three company will introduce a competitive small car among 1960 models. (C1)

Chrysler Corporation: Red ink this year after success in 1957 reflects stand-pat policy on styling of 1958 models. New 1959 models may offer company a chance to stage a moderate recovery. High overhead costs will have to be reduced, however. (B3)

Ford Motor Company: Ford line remains sole real money-maker. Edsel likely to be continuing drain on profits for a year or more. Earnings down sharply this year, owing to recession, tough General Motors competition and non-profitable medium and high priced lines. (B3)

Fruehauf Trailer: Easier credit should eventually enable this company to increase sales to truckers, after poor 1957 earnings. New competition may pare Fruehauf's share of market. (C3)

General Motors Corporation: With lowest break even point in industry, GM has chosen a poor year in which to gain a larger share of the market. Continuation of present 50 per cent ratio of market in 1960s, however, will mean handsome payoff to shareholders. (A3)

Mack Truck: Moderate dip in sales likely to reduce earnings this year. Increasing attention paid by larger companies to heavy duty trucks means sharper competition for Mack. (C3)

Studebaker-Packard: Company's present product line not likely to make it a profit maker. New line of smaller cars, possibly made here, may enable company to do better in 1959 (D3)

White: Production this year running slightly behind 1957 thus far. Merger with Diamond T should strengthen White. (C3)

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

temporarily. He is spending a larger share of his income for such services as education, medical care and insurance, and is saving more. Less of his income is going into autos and other durable goods.

• The auto industry's 1958 models are less popular than those of recent years.

• The average age of the American cars on the road has declined sharply from over 10 years in 1945 to around 5 years today. This is where the average age stood in 1941. Nearly 50 million cars are less than 10 years old and 20 million are less than three years old. In short, the consumer is well stocked.

These problems explain the present plight of the auto industry. It appears, on the basis of first quarter sales, that 1958 will be the poorest year since 1952. Retail deliveries have been running this year at the rate of 4.4 million a year, compared with the 6 million cars sold last year. Production in the first quarter was only 1,238,000 cars, or one-third less than the 1,790,597 sold in the same period of 1957, yet dealer inventories have risen until they totaled 850,000 on April 1.

While slight seasonal gains have occurred since Mid-March, sales remain far below the levels of last year. Even if some improvement occurs in the remaining months of the year, it does not seem likely that the total will go above 4.8 million, and it might fall short of this mark if general business remains unfavorable, or if a major strike hits Ford or General Motors on June 1.

For General Motors, this year has not been as disappointing as it has been to Ford and Chrysler, the other members of the Big Three. Also, American Motors apparently reached a turning point in its history with the introduction of its 1958 model Rambler cars. It, alone in the industry, has registered a sales gain and it has entered black ink. This reflects improved acceptance of its economy cars.

General Motors has sustained a dip in volume, but its share of the market has risen from around 46 per cent in the first quarter of last year to over 50 per cent in the similar quarter of 1958. Earnings in the first quarter were 65¢ a share versus 93¢ a year ago.

For Ford Motor Company, 1958 has been an extremely disappointing year, and for Chrysler, it has been even worse. From record breaking earnings in the first quarter of last year Chrysler has dropped in the first three months to a loss. Losses of at least similar size to that of the first quarter seem likely in the second and third quarters. Profits realized by Chrysler in the fourth quarter when dealers will be stocked up on new 1959 models are unlikely to offset losses realized in the first nine months.

Ford's dip to 42 cents a share in the first quarter, substantially less than the current 60 cent dividend, was to be expected in view of the sharp decline in sales. Continuation of such earnings for several quarters might endanger the present dividend.

The biggest obstacle facing the auto industry at the moment has been the rise in unemployment. In recent years, over 60 per cent of new car sales have been effected through instalment financing. Facing a period of uncertainty, many car owners who would normally have bought a new car this year have decided to postpone such purchases. This trend has been especially marked among the groups that usually buy cars on the instalment plan. An accom-

panying increase has also occurred in repossessions as a result of the rise in unemployment. Instalment debt declined in the first quarter for the first time in many years.

If unemployment gradually begins to recede, the improvement in confidence thus brought about would undoubtedly be reflected in higher sales of cars. There is a good chance, however, that unemployment will remain at a rather high level for some time to come, even if some lines of business improve in the second half of this year. Any worsening of the general business picture would make it that much harder to sell new cars.

Coming New Models

Introduction of the 1959 models is only a few months away. Because of the extraordinarily keen competition in the auto industry, and because of the disappointing year experienced by most car manufacturers, it is likely that the 1959 models will be introduced somewhat earlier than usual, possibly in September and October. The new models will entail more widespread changes and somewhat heavier tooling costs on most cars than has been the practice in recent years, although it cannot be said that the industry has skimped in its unsuccessful efforts to offer restyled and improved products to the public.

The industry is hopeful that it will get somewhat better results from its tooling investments on the 1959 model cars.

In 1956, 1957 and again this year, the response of the public to the new models has been less satisfactory than the manufacturers had anticipated. The steady rise in the share of the market enjoyed by small English cars, and by the compact Rambler line of American Motors, has led some experts to believe that the leading American producers would not again enjoy a fully satisfactory year until they offer similar small economy cars to supplement the present lines of lower priced, medium priced and luxury priced cars.

It does not seem at all likely, however, that any one of the Big Three of the auto industry will be able to complete tooling on an economy sized car before late 1959, if, indeed, they will be ready or willing by then to run the risk of making large tooling investments to bring such cars to market. If sales of the small European cars were to level off at the anticipated 1958 level of around 250,000 cars a year, their present rate of sale, there would be little incentive for American producers to enter this highly competitive field. This level represents only about 6 per cent of the present American market. Imports of cars made by European subsidiaries of General Motors and Ford are steadily increasing, and in this way, these companies are obtaining a slightly better share of the small car market. It remains to be proven that the public is demanding American-made small cars from factories of the Big Three. Until this question is settled, sales of larger American cars may remain subnormal, for the consumer may feel that such cars are being "forced down its throat."

Although the new lines for 1959 will not include many American made small cars, it is likely that the auto industry will be able to bring its products more in line with the current taste of the American public. In some models greater stress will be placed on economical engines which consume at least 20 per cent less gasoline.

Public Wants to Economize

With the recession, the American public has become more economy-minded. Even persons who can afford to pay for larger cars, with poor gasoline economy, have been buying small European cars and Ramblers to save money on fuel. Economy in cars has become fashionable. Similarly, the lower initial investment required by the smaller cars has been a factor in their favor with the consumer. It can therefore be assumed that by offering better fuel economy in many of its cars at the expense of horsepower and torque, Detroit will be able to make a more popular appeal to the motorist. Elimination of chrome to permit other economies will also be tested in some new cars. But the changes for 1959 may not go far enough.

Improved gasoline economy in American made cars will not immediately end the threat of the European small car. Temporarily, at least, the large American car has lost its prestige as the symbol of prosperity. For many groups, possession of a small less expensive European car seems to offer equal, or even superior prestige. To correct this situation, American car producers would have to either offer a better value in small cars than in those now being imported, or would have to improve the competitive position of present low priced and medium priced cars by reducing prices. Accomplishment of either of those objectives would mean a sacrifice of profits. Labor costs and steel costs are higher in this country, and unless the inflationary trend in wage rates can be halted, American-produced cars will tend to find it more and more difficult to compete with European produced small cars.

The situation, however, is not desperate. A large proportion of the American public—at least 50 to 75 per cent of the total—will always demand the larger high-powered cars which have been so successful in former years. With any return of prosperity, many persons would see less need for austerity in automobiles. It is even conceivable that on such a wave of prosperity, the tide of public preference would swing violently away from small cars on the grounds that they are uncomfortable and offer little in the way of advanced engineering or power options, such as automatic transmissions, power steering and power brakes. Such swift shifts of public preference make the auto industry's future difficult to predict.

Economy Car Popular

It is more likely, however, that small economy cars have permanently become an important factor on the American highway. Even if good times returned, many families would still not be able to spare $1,000 a year to cover depreciation, maintenance and fuel for a new medium priced or low priced car. The teen-age group is steadily growing in numbers each year, and the average family is discovering that services and education costs now being incurred rule out the purchase of a new car and other consumer goods. For the American consumer to go increasingly into debt is not the answer to the sales problem now facing Detroit, for there are other services for which the consumer would

*Comprehensive Statistics Comparing the Position of Leading Automotive & Rubber Companies**

Figures are in millions, except where otherwise stated	Autos & Trucks: Chrysler Corp.	Autos & Trucks: Ford Motor	Autos & Trucks: General Motors	Autos & Trucks: International Harvester	Tire & Rubber: Firestone Tire & Rubber	Tire & Rubber: Goodrich (B. F.)	Tire & Rubber: Goodyear Tire & Rubber	Tire & Rubber: Rubber U. S.
CAPITALIZATION:								
Long Term Debt (Stated Value)	$ 250.0	$ 250.0	$ 286.1	$ 100.0	$ 101.1	$ 45.7	$ 241.0	$ 169.0
Preferred Stocks (Stated Value)	......	......	$ 285.9	$ 81.6	$ 3.2	......	......	$ 65.1
No. of Common Shares Outstanding (000)	8,725	12,003	278,811	13,875	8,406	8,952	10,590	5,730
Capitalization	$ 468.1	$ 522.4	$ 1,040.4	$ 736.6	$ 156.8	$ 135.2	$ 294.0	$ 262.8
Total Surplus	$ 514.1	$1,877.0	$ 4,153.2	$ 136.7	$ 403.6	$ 253.1	$ 403.0	$ 195.3
INCOME ACCOUNT: Fiscal Year Ended	12/31/57	12/31/57	12/31/57	10/31/57	10/31/57	12/31/57	12/31/57	12/31/57
Net Sales	$3,564.9	$5,771.2	$10,989.8	$1,171.3	$1,158.8	$ 734.6	$1,421.8	$ 873.5
Deprec., Depletion, Amort., etc.	$ 214.7	$ 385.9	$ 414.9	$ 35.9	$ 38.9	$ 21.1	$ 43.2	$ 22.7
Income Taxes	$ 132.0	$ 286.6	$ 805.1	$ 31.2	$ 58.1	$ 36.5	$ 67.7	$ 27.9
Interest Charges, etc.	$ 8.2	$ 6.7	$ 8.6	$ 3.5	$ 4.7	$ 1.7	$ 8.9	$ 5.7
Balance for Common	$ 119.9	$ 282.7	$ 830.6	$ 39.9	$ 61.5	$ 39.3	$ 64.8	$ 24.4
Operating Margin	7.1%	7.3%	14.7%	5.6%	10.5%	9.5%	9.8%	6.3%
Net Profit Margin	3.3%	4.8%	7.7%	3.8%	5.3	5.3%	4.5%	3.4%
Percent Earned on Invested Capital	16.3%	13.1%	17.1%	5.9%	13.4%	11.4%	14.2%	10.2%
Earned Per Common Share*	$ 13.75	$ 5.19	$ 2.98	$ 2.88	$ 7.32	$ 4.40	$ 6.12	$ 4.27
BALANCE SHEET: Fiscal Year Ended	12/31/57	12/31/57	12/31/57	10/31/57	10/31/57	12/31/57	12/31/57	12/31/57
Cash and Marketable Securities	$ 532.2	$ 265.1	$ 733.4	$ 152.9	$ 45.2	$ 45.3	$ 44.3	$ 39.3
Inventories, Net	$ 300.3	$ 653.5	$ 1,730.7	$ 323.6	$ 268.5	$ 168.7	$ 341.4	$ 234.8
Receivables, Net	$ 81.1	$ 151.5	$ 553.3	$ 59.1	$ 199.6	$ 119.1	$ 198.5	$ 119.9
Current Assets	$ 940.0	$1,091.3	$ 3,017.6	$ 563.7	$ 513.4	$ 333.2	$ 584.3	$ 394.1
Current Liabilities	$ 514.3	$ 656.2	$ 1,156.2	$ 147.7	$ 184.4	$ 89.3	$ 135.1	$ 112.1
Working Capital	$ 425.7	$ 435.1	$ 1,861.4	$ 416.0	$ 329.0	$ 243.9	$ 449.2	$ 282.0
Current Ratio (C. A. to C. L.)	1.8	1.6	2.6	3.8	2.7	3.7	4.3	3.5
Fixed Assets	$ 546.0	$1,842.2	$ 3,118.2	$ 324.2	$ 247.0	$ 166.1	$ 314.5	$ 171.4
Total Assets	$1,496.6	$3,114.4	$ 6,825.7	$1,021.1	$ 771.4	$ 527.8	$ 913.1	$ 592.9
Cash Assets Per Share	$ 61.00	$ 22.08	$ 2.63	$ 11.02	$ 5.38	$ 5.06	$ 4.18	$ 6.86
Inventories as Percent of Sales	8.4%	11.3%	15.7%	27.6%	23.1%	22.9%	24.0%	26.8%
Inventories as % of Current Assets	31.9%	59.9%	57.3%	57.4%	52.3%	50.6%	58.4%	59.5%

*—Data on dividend, current price and yields of auto and truck stocks in table on page 205. For article on rubber industry see page 208.

more willingly go into debt.

Wages and Prices

The solution of the price problem will be found in tight bargaining with the United Automobile Workers, to halt inflationary wage rises.

Collective bargaining is currently under way at Detroit. There is every indication that Ford and General Motors see eye to eye more than they did in 1955 when the present three year contract was signed. Then, Ford capitulated quickly after offering a token show of resistance. The union is weaker this year, for many of its members are unemployed or have lost weeks of pay. But whether Ford would be willing to take a strike to avoid granting profit sharing, wage rises and the other union demands, remains to be seen. The companies know, however, that any inflationary rise of 20 to 24 cents, like that granted in 1955, would mean a smaller market for American-made cars.

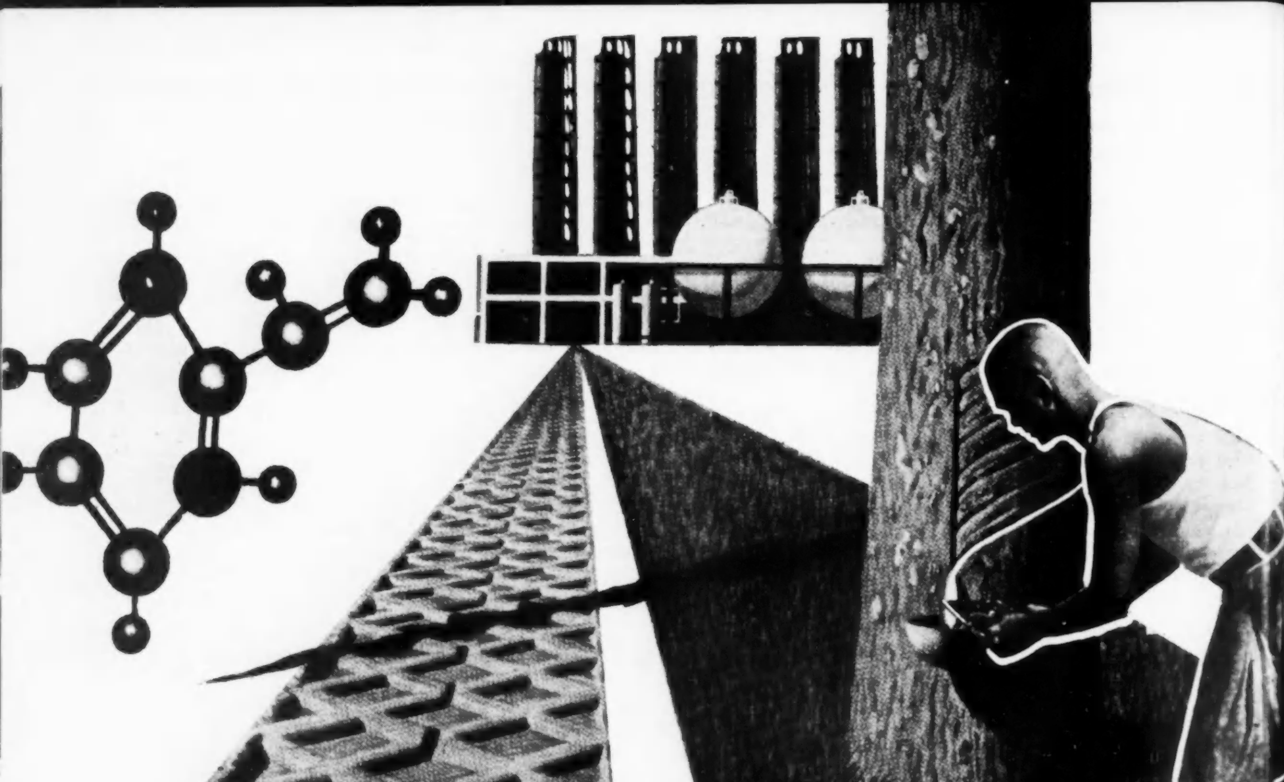
Some wage increase however seems unavoidable, since General Motors has already offered continuance of the present annual 6 cent or 2½% rise.

A cut in excise taxes is also essential, and there is a good chance that this will be granted by Congress. The present 10 per cent excise tax is equal to $200 per car. If this tax were halved, the resultant price cut of $100 would help somewhat to stimulate sales of American cars. It would enable American producers to offset in part, at least, the low cost labor enjoyed by foreign producers.

The outlook therefore appears fairly good for minor gains in auto sales next year, from this year's indicated 4.4 to 4.8 million total. Whether the total, however, will go above 5 million until 1960 or 1961 is doubtful. Private capital investments have been cut back sharply and it will take time—perhaps two years or more—before a new capital investment boom gets under way. Until capital spending again approaches the level of 1956 and 1957, general purchasing power as reflected in new auto sales is likely to remain below the levels of those years.

The profit squeeze of the American automobile manufacturer, resulting from higher costs, inadequate price rises and dwindling volume has been shared by most other industries. It is likely that if this squeeze is ended for one industry, it will be ended for many.

If the auto industry wins its battle against higher wages and higher prices, it will have ahead of it good prospects in the 1960s. Family formation will then be growing rapidly. The automobile is still regarded as essential to business and the American home. Companies like General Motors, Chrysler and Ford seem slated to (*Please turn to page* 222)



RUBBER and TIRE INDUSTRY

—More Stability—But Not Recession-Proof

STUDY NO. 10 BY OLIVER NORTON

THE general recession has caught up with the tire and rubber industry. Earnings have declined sharply ever since the third quarter of 1957.

This is the first substantial dip in the industry's profits since 1949, although, as in many other industries, profit margins in relation to sales have been declining or levelling off since 1950 in spite of enormous investments in new plants. In the past few years, particularly since the brief recession of 1954, the tire and rubber industry had won a position as a growth line with excellent depression resistant characteristics. For in the dip of 1954, Big Four producers were able to maintain their profits within striking distance of the 1950-1952 level. This was accomplished largely through good replacement demand for tires, and it was hoped that this would be repeated in future recessions.

Now the industry must be re-appraised. Its growth potential appears to have been somewhat over-estimated, and like many growth lines, it has been demonstrated that it is not immune to declines in demand, price cutting, cost absorption, and all of the other things that can reduce profits in a recession.

The industry is still in a far stronger position than it used to be before World War II, when it was dependent on natural rubber from the Far East. Thus far, at least, the industry's tire-making raw materials have remained relatively stable. It has not had to write off vast inventory losses as was its custom periodically when natural rubber was its sole source and that material was gyrating wildly in price. Natural rubber has dipped about 5 cents a pound in the last year—a minor readjustment.

Year by year, synthetic rubber has accounted for larger and larger shares of the industry's requirements. In 1957 the synthetic rubber ratio to total rubber consumption rose to a new postwar high of 63.3 per cent, compared with 51.4 per cent in 1954, and nothing prior to World War II. Elimination of

*Leading Tire & Rubber Companies**

	Rating	Earnings Per Share 1956	Earnings Per Share 1957	Earnings Per Share 1st Quarter 1957	Earnings Per Share 1st Quarter 1958	Dividends Per Share 1956	Dividends Per Share 1957	Recent Price	Div. Yield	Price Range 1957-1958
Dayton Rubber	B3	$2.79	$1.48	$ .46	$ .17	$1.40[1]	$1.40	16	8.7%	23¾-14½
Firestone Tire & Rubber	A3	7.43	7.32	1.68	1.37	2.60	2.60[1]	83	3.1	101¼-81⅛
General Tire & Rubber	B3	2.30	2.12	.65	.30	.66	[1] .70[2]	23	3.0	32⅞-18¾
Goodrich (B. F.)	A3	4.90	4.40	1.14	.70	2.20	2.20	56	3.9	79¾-55¼
Goodyear Tire & Rubber	A3	6.03	6.12	1.67	....	2.40[1]	2.40[1]	72	3.3	95¼-69
Lee Rubber & Tire	B3	1.90	2.09	.40	.33	1.20	1.20[2]	19	6.3	24¾-17⅞
Seiberling Rubber	C3	2.05	1.75	.31	....	.60[1]	.60[1]	11	5.4	15⅝- 8⅛
U. S. Rubber	A3	4.83	4.27	1.20	.44	2.00[1]	2.00[1]	32	6.2	49⅜-30⅜

[1]—Plus stock.
[2]—Latest 1958 rate.
*—Comprehensive statistics on 4 leading Rubber Companies appear on page 207.

Ratings: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.

1—Improving earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

a very large part of the risk involved in carrying natural rubber inventories has until this year been coupled with profits realized on integrated synthetic rubber plants and purchased by the tire producers from the Government in recent years.

Domestic Problems

Earnings reports of the rubber industry for the first quarter have shown sharp declines in sales and profits. This trend has been brought about by the following factors:

Original equipment tire business has slumped fully 30 per cent as a result of the sharp curtailments in automobile and truck output since Jan. 1, 1958.

Replacement demand for tires, which in 1957 actually showed a slight gain, has slumped 5 per cent in the first quarter. This undoubtedly reflects the impact of the recession on car owners' habits with respect to use of automobiles and replacement of tires. To a greater extent, car users are recapping old tires. Recap sales are up sharply.

The tire makers have been absorbing labor cost rises for some time. For example, in July, 1957, wage increases approximated 6½ per cent. On some products, the industry raised prices around 3 per cent, but on others, the extent of price relief was small. Indeed, sharp competition has resulted in price reductions on some rubber products.

The industry's greatly broadened diversification and integration in chemicals and other fields has made it vulnerable to a wide variety of depression-caused reductions in profits.

For example, with synthetic rubber sales sharply lower, profits and dividends of synthetic rubber subsidiaries have been reduced. U.S. Rubber reported that its dividend from Texas-U.S. Chemical, in which it has a half interest, was sharply cut in the first quarter because of lower sales of synthetic rubber. Goodrich has been hit by price weakness in polyvinyl chloride. Other chemical price cuts have affected profits substantially.

The general decline in industrial activity, coupled with inventory reduction policies, has meant a sharp curtailment in the demand for industrial rubber products, such as belting and other mechanical rubber goods.

Nor are all of the rubber industry's troubles behind it. Inventories of tires are high, and the auto industry's output schedules for the second and third quarters point to no pick-up in original equipment demand until the fourth quarter when the new models for 1959 are introduced.

The industry is currently bargaining with the United Rubber Workers on pensions and other fringe benefits. This will undoubtedly mean additional costs. Chances of passing these cost rises along to auto companies and the consumer are not good, owing to the present competitive state of business.

Gains Abroad

The most important near-term favorable factor is the growth in the foreign market. Foreign subsidiaries of the American companies are operating tire making plants all over the world. These have steadily grown in importance. In the future, they will contribute even more to the earnings of the American rubber companies.

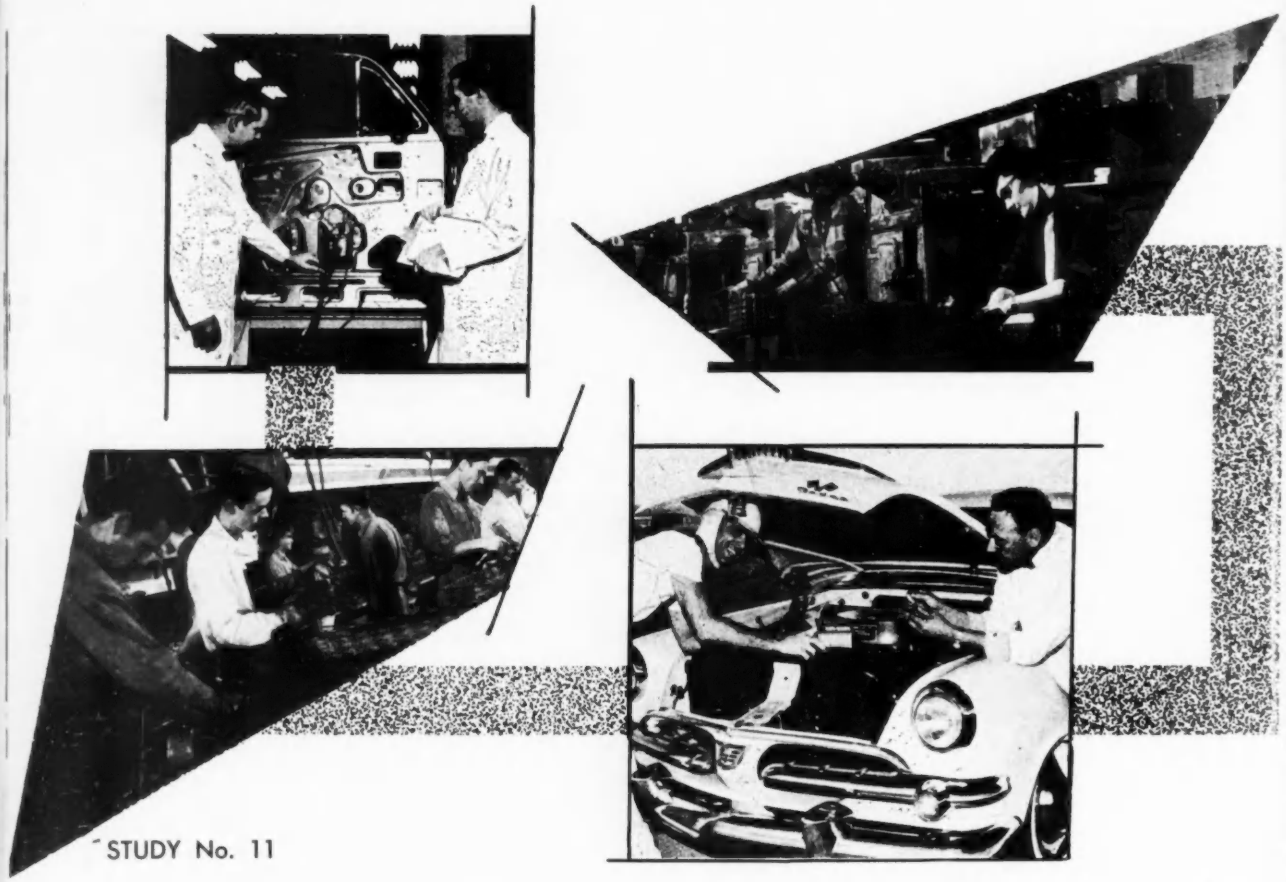
First Quarter Operations

Earnings reports of the leading rubber companies for the first quarter show a much greater dip than the decline shown in sales. For example, sales of U.S. Rubber declined 15 per cent in the first quarter to $196 million, yet net income per share dropped from $1.20 in the first quarter of 1957 to only 44 cents a share in the first quarter of this year.

Similarly, B. F. Goodrich's net profit declined 38 per cent in the first quarter, although sales were down only 11.8 per cent. Cost absorption, which became a problem of increasing importance even during the prosperous years of 1955, 1956 and 1957, has become even worse under the influence of greatly heightened competition resulting from the recession.

In such a period of consumer retrenchment, premium grades of tires sustain the sharpest decline in volume, as the consumer switches to second or third line tires or recaps. Profit margins on the competitive cheaper lines are usually lower than on the first line brands. Recapped tires, which are enjoying a sales boom, sell for about one-half of the price of first line new tires.

The biggest single blow to the tire industry's sales this year, however, has been the sharp drop in automobile output. In addition to the loss in volume sustained by the tire producers, because of reduced new car assemblies, there has been a substantial decline in other (*Please turn to page* 230)



STUDY No. 11

Checkered Outlook For ACCESSORY MAKERS

BY LAWRENCE JACKSON

AFTER the car boom of 1955 petered out, the nation's manufacturers of parts and accessories relied with exceptional success on their newly acquired diversification to stabilize operations. How successful they were can be seen by just a quick glance over their earnings in 1956 and 1957. True, in many cases full 1957 results were below the year earlier, but in most instances earnings were still highly satisfactory.

In 1958, however, that same diversification is likely to create more problems for the parts makers than it will solve. For unlike the past two years, the entire economy is now wending its way downward, and many an auto parts executive must feel much like the proverbial man trying to plug the holes in a sieve, as one newly acquired division after another feels the impact of the expanding recession.

Of course, for most of the companies, their principal concern, and the prime reason for their present lower level of operations, is the dismal showing the new car producers are making this year. Estimates of total industry output for 1958 vary from Harlow Curtice's early and optimistic 5 million cars to as low as 3.5 million, with most experts placing the figure cautiously at the 4 million mark. Even at that, however, the auto production statistics appear to worsen with each passing month so that all predictions are tenuous and contribute immensely to the parts makers uncertainties. Just a few weeks ago, for example, new car assemblies for the second quarter were estimated at approximately 87,000 a month, but after reviewing the 27 per cent drop in sales through the first 10 days of April, a period when a pick up would normally be expected, the industry quickly lowered its sights to 80,000 units a month. Perhaps most importantly, the daily average for the first 10 days of April was 13,300 cars sold—and this figure is lower than for the comparable period in March, certainly an unusual situation.

In light of the automobile picture, earnings for those parts producers that rely heavily on their original equipment business stand a slim chance of

Comparative Earnings and Dividend Records of Leading Auto Accessory Companies

	Earnings Per Share 1956	Earnings Per Share 1957	Earnings Per Share 1st Quarter 1957	Earnings Per Share 1st Quarter 1958	Dividends Per Share 1956	Dividends Per Share 1957	Recent Price	Div. Yield	Price Range 1957-1958
Bendix Aviation	$5.04	$5.44	$1.38	(NA)	$2.40[1]	$2.40	47	5.1%	66¾-42
Bohn Aluminum & Brass	1.80	2.04	.55	$ .11	2.00	1.00[2]	16	6.2	25 -14
Borg-Warner	4.01	3.82	1.01	.56	2.30	2.00[2]	26	7.6	46 -25⅞
Budd Co.	1.97	1.91	.58	.15	1.40	1.40	13½	10.3	21½-13⅛
Clevite Corp.	2.06	2.08	.88	(NA)	1.15	1.00[2]	16	6.2	25½-15⅛
Eaton Mfg.	7.06	6.02	1.66	.85	3.50	3.00	43	6.9	64¼-38½
Electric Auto-Lite	3.23	3.44	2.31	.41	2.00	2.50	27	9.2	40⅜-24½
Electric Storage Battery	1.47	4.72	.71	.55	2.00[1]	2.00	30	6.6	35¼-25½
Houdaille Industries	2.02	2.60	.23	(NA)	1.00[1]	1.00[1]	16½	6.0	23¾-15⅞
Kelsey-Hayes Co.	5.28	6.22	1.65	.27	2.40	2.40	27	8.8	49¾-25⅛
King-Seeley	3.78	2.04	.63	.06	2.50	2.50	20	12.5	35¼-19½
Libby-Owens-Ford Glass	5.59	5.36	1.58	.72	3.60	3.60	74	4.8	84¾-65¼
Midland-Ross Corp.*	4.06	6.91	(NA)	(NA)	3.00	3.60	39	9.2	53 -35
Motor Wheel	1.70	[d] .95	.63	.08	1.80	1.00[2]	13	7.6	23⅝-12½
National Automotive Fibres	[d]1.66	.97	.51	(NA)	.75	......	12	....	14 - 9¼
Raybestos Manhattan	6.54	5.47	1.45	(NA)	3.40	3.40	48	7.0	59¼-45¼
Rockwell-Standard Corp.**	2.51	3.20	.95	.52	2.00[1]	2.00[1]	25	8.0	31⅝-22⅛
Smith (A. O.) Corp.	3.55	4.86	2.82	(NA)	.93	1.60[2]	27	5.9	44¾-25¾
Stewart-Warner	4.41	3.78	1.23	.74	2.00[1]	2.00[1]	30	6.6	41⅝-27¼
Thompson Products	4.60	4.20	1.44	.67	1.40	1.40	44	3.1	89¾-41⅜
Timken Roller Bearing	4.50	3.89	1.32	.61	2.00	2.00[2]	34	5.8	53⅝-30
Youngstown Spring & Wire	3.45	2.79	.63	.61	2.00	2.00	28	7.1	35½-25⅛

***—Merger of Midland Steel Products and J. O. Ross Engineering Corp. 11/26/57.**
d—Deficit.
1—Plus stock.
2—Latest 1958 rate.
****—Name change from Rockwell Spring & Axle.**
(NA)—Not available.

Bendix Aviation: Now a leader in electronics and missile technology, earnings should begin recovery in latter half of 1958. Full year results will be below 1957, but dividends should be amply covered. (B1)

Bohn Aluminum & Brass: Reduced earnings from other lines and slower operations of parts divisions will prevent further earnings recovery. (C2)

Borg-Warner: Strongly financed, but diversified activities are adding to company's auto parts woes at present. No substantial recovery seen this year, but recently reduced dividend should be secure. (B2)

Budd Co.: Reduced auto production will cut heavily into bodies and parts sales. First quarter results were unsatisfactory as rail equipment business also slipped. Dividend coverage will be narrow. (C3)

Clevite: Electronics and aircraft parts are growing in importance, but auto accessories still account for 50 per cent of sales. Recent cost-cutting campaign will do little to protect earnings this year. (B2)

Dana Corp.: Company has done little diversifying. Slower new car assemblies must, therefore, cut operations substantially. First quarter earnings were about 18 per cent below year ago, a trend that should continue. (B3)

Eaton Mfg.: With almost 90 per cent of civilian sales channeled into the automotive industry, revenues and earnings will be sharply lower in 1958. Dividend appears reasonably safe at present, however. (B3)

Electric Auto-Lite: Sharp reduction in earnings expected as sales of Chrysler, its leading customer, decline. Dividends may be shaved. (B3)

Electric Storage Battery: Stable sales and earnings seem in prospect because of company's strong replacement market position. Results of Ray-O-Vac division should also help retail ratios. (B1)

Houdaille Industries: Auto parts have been reduced to 55 per cent of sales. Diversified operations may be aided by construction materials business as highway program gets rolling. Satisfactory operations in prospect. (B2)

Kelsey-Hayes: Heavy diversification in aircraft will cut earnings, since cutbacks and stretchouts have been concentrated in that area. A retreat from last years good showing is in prospect. (B3)

King-Seeley: Heavy reliance on original equipment business will hurt calendar year operations. Satisfactory first half, however, which ended in January, will keep reported earnings close to last year. (B3)

Libbey-Owens Ford Glass: Earnings decline in prospect as auto sales decline, but excellent finances and notably efficient operations should moderate slide. (A3)

Midland-Ross: Formerly Midland Steel Products, the companies new structure should aid long term performance, but for the present, body frame business will suffer along with auto assemblies. (B3)

Motor Wheel: Large percentage of original equipment business, and lack of defense business as an offset should lead to moderately lower earnings. (C2)

National Automotive Fibre: Earnings have recovered from poor 1956 showing, but basic position is still unsound. Moderately lower operations expected in year ahead. (C2)

Rockwell Standard: The former Rockwell Spring & Axle, name change implies diversification. Operations will be helped by roadbuilding and farm equipment, but some decline in earnings expected. (B3)

Smith (A. O.): Well diversified now in steel and tubular products, earnings will nevertheless be down in 1958. Renewed signs of gas pipe line expansion may help buoy operations, however. (B2)

Stewart-Warner: Sales of military equipment may equal last year's but automotive shipments will slide. A continuation of the lower earnings trend that began in latter half of 1957 is expected. (B3)

Thompson Products: Earnings were down sharply in first quarter, but by second half of 1958 defense business should pick up steam. A growing leader in missilry, longer term prospects are good. (B2)

Timken Roller Bearing: World's leading bearing manufacturer, and a highly rated company. Nevertheless, operations will be hampered by auto and rail equipment slowdown. Dividends appear secure. (A3)

Young (L. A.) Spring & Wire: Favorable fiscal first half, and growing diversification will lead to satisfactory 1958 results. On calendar year basis, however, slowdown in automotive business will lead to earnings slippage. (C2)

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

equalling 1957 earnings. Moreover, the rise in defense expenditures, as the year progresses will be of limited value to many of the companies since most have diversified into aircraft parts production while the lion's share of defense spending will be channeled into missiles and electronics.

Replacement Business Holds Up

The brightest spot in the auto parts industry is the replacement parts market. With almost 70 million cars and trucks on the road, and their average age increasing each year, replacement parts sales can be expected to expand steadily. Vehicles from two to six years of age comprise the most fertile field for parts sales, and the bumper 1955 crop of almost 8 million cars now falls in the midst of that category. Moreover, many of these cars are loaded with new and expensive types of equipment approaching the replacement stage. Not the least of these is the enormous number that now have complicated and many-parted automatic transmissions, two mufflers instead of the former single unit, and the newer 12 volt batteries in place of the former six volt type. Add to these items the profusion of fragile gadgets such as power steering, power brakes, nonslip differentials, and fuel injectors instead of carburetors, and a whole new dimension has been introduced into the replacement market.

Electric Storage Battery should be one of the main beneficiaries of this trend. Biggest market for the company's Exide and Willard batteries is the replacement field, which in all accounts for over 50 per cent of the company's revenues. Undoubtedly original equipment sales (principally to Ford and Chrysler) will slip in 1958 but the strength of the parts business should keep the drop in sales within bounds. Operations will also be helped this year by the acquisition of **Ray-O-Vac,** an important manufacturer of radio and flashlight batteries, rubber products and molded plastics. Earnings below the $3.44 per share earned in 1957 are to be expected, but the company's dividend, $2.00 per share, seems likely to be maintained.

Integration and Obsolescence

Not the least of the parts makers problems is the rising list of innovations that are shaking up some of the well-entrenched producers. Fuel injection is still very much in the trial stage, but if it should become regular equipment on cars in the near future the carburetor manufacturers such as **ACF Industries** and **Bendix Aviation** will suffer a serious dent in their sales. Of more immediate import is the recent development of "air-springs" which is threatening the standard and lucrative spring business of such companies as **Young (L. A.) Spring & Wire** and **Rockwell Standard;** and the trend towards a new type body, pioneered in American Motor's successful "Rambler" that requires no framing for the car body.

Smith (A. O.), one of the nation's principal frame manufacturers has attempted to hedge against such an eventuality by diversifying into tubular steel products. But recent slowdowns in the oil industry and curtailments of oil and gas pipeline activities have set back this division which accounts for almost 30 per cent of Smith's revenues. Earnings for the year ending July 31, 1958 may well approach the $4.86 per share earned a year ago, largely because of the high level of tubular products activity in the first six months of the company's fiscal year, but for the twelve months of 1958 both sales and earnings are likely to recede.

On the other side of the coin, companies that have successfully developed new and profitable products face the constant threat that the auto makers themselves will enter the field. **Borg-Warner,** for example, one of the top automatic transmission producers may lose its Ford business shortly as the major auto company swings into production of its own units.

Borg, as a matter of fact is going through particularly trying times. The company was one of the first of the parts producers to recognize the need for diversity, and in a few short years spread out into aircraft parts, air conditioning, farm equipment, household appliances, oil field equipment and various other industrial and defense items. Through 1955 the strategy paid off handsomely, but then in rapid succession there were major reverses in the home appliance field, oil well equipment, aircraft parts and now auto parts. Earnings dropped from $5.17 per share in 1955 to $4.01 in 1956 and $3.82 last year. Despite its troubles, however, the company has maintained an excellent financial position, and last year its net worth climbed above $300 million, and work-

Comprehensive Statistics Comp… Position

Figures are in millions, except where otherwise stated	Bendix Aviation	Borg Warner
CAPITALIZATION:		
Long Term Debt (Stated Value)	$ 1.4	$ 21.7
Preferred Stocks (Stated Value)	......	$ 15.5
No. of Common Shares Outstanding (000)	5,056	8,841
Capitalization	$ 26.7	$ 81.8
Total Surplus	$179.8	$251.1
INCOME ACCOUNT: Fiscal Year Ended	9/30/57	12/31/5
Net Sales	$711.2	$608.5
Deprec., Depletion, Amort., etc.	$ 9.5	$ 15.2
Income Taxes	$ 31.8	$ 36.9
Interest Charges, etc.	$ 2.6	......
Balance for Common	$ 27.5	$ 33.7
Operating Margin	8.5%	11.9%
Net Profit Margin	3.8%	5.6%
Percent Earned on Invested Capital	13.4%	11.1%
Earned Per Common Share*	$ 5.44	$ 3.82
BALANCE SHEET: Fiscal Year Ended	9/30/57	12/31/5
Cash and Marketable Securities	$ 34.5	$ 73.1
Inventories, Net	$131.3	$115.4
Receivables, Net	$118.9	$ 85.9
Current Assets	$284.8	$274.5
Current Liabilities	$158.7	$ 84.3
Working Capital	$126.1	$190.2
Current Ratio (C. A. to C. L.)	1.8	3.2
Fixed Assets, Net	$ 69.9	$116.7
Total Assets	$370.0	$415.5
Cash Assets Per Share	$ 6.82	$ 8.24
Inventories as Percent of Sales	18.4%	18.9%
Inventories as % of Current Assets	46.1%	42.0%

*—Data on dividend, current price of stocks and yields in supplementary table on preceding page.

... Position of Leading Auto Accessory Companies

Borg Warner	Budd Co.	Eaton Mfg. Co.	Electric Auto-Lite	Electric Storage Battery	Libbey Owens Ford Glass	Rockwell Spring & Axle	Stewart Warner	Thompson Products	Timken Roller Bearing
$ 21.7	$ 28.6	......	$ 31.4	$ 3.5	......	......	......	$ 32.4	......
$ 15.5	$ 12.5	......	......	......	......	......	......	$ 8.3	......
8,841	4,346	1,838	1,601	1,658	5,220	4,938	1,584	2,762	5,327
$ 81.8	$ 62.9	$ 3.6	$ 39.4	$ 20.6	$ 52.2	$ 24.9	$ 8.0	$ 54.6	$ 43.9
$251.1	$ 92.3	$ 85.2	$100.3	$ 58.0	$ 97.7	$ 88.2	$ 37.1	$ 83.1	$ 95.3
12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57
$608.5	$317.7	$221.8	$267.3	$141.9	$237.2	$263.5	$111.9	$368.5	$205.2
$ 15.2	$ 7.7	$ 6.7	$ 8.4	$ 2.9	$ 19.2	$ 9.2	$ 1.4	$ 7.6	$ 5.4
$ 36.9	$ 8.3	$ 10.6	$ 8.1	$ 6.0	$ 35.3	$ 16.6	$ 6.9	$ 13.0	$ 23.7
......	$ 1.4	......	$ 1.0	$ .2	......	$ .3	......	$ 2.9	......
$ 33.7	$ 8.2	$ 11.0	$ 7.5	$ 5.7	$ 28.0	$ 15.8	$ 5.9	$ 11.6	$ 20.7
11.9%	4.8%	9.8%	6.1%	8.0%	25.3%	12.1%	11.0%	7.5%	8.0%
5.6%	2.7%	5.0%	2.8%	4.0%	11.8%	6.0%	5.3%	3.2%	20.8%
11.1%	7.0%	12.4%	6.9%	7.5%	18.6%	14.0%	13.2%	11.3%	10.1%
$ 3.82	$ 1.91	$ 6.02	$ 4.72	$ 3.44	$ 5.36	$ 3.20	$ 3.78	$ 4.20	$ 3.89
12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57
$ 73.1	$ 33.6	$ 9.2	$ 26.1	$ 4.8	$ 36.9	$ 21.0	$ 15.7	$ 14.3	$ 42.0
$115.4	$ 35.3	$ 30.6	$ 41.3	$ 31.6	$ 31.8	$ 38.6	$ 19.6	$ 58.2	$ 55.5
$ 85.9	$ 25.3	$ 17.2	$ 26.2	$ 17.4	$ 14.0	$ 18.6	$ 15.1	$ 43.6	$ 13.2
$274.5	$ 95.9	$ 57.8	$ 95.0	$ 55.1	$ 82.7	$ 78.3	$ 50.5	$116.2	$110.8
$ 84.3	$ 31.4	$ 25.5	$ 20.5	$ 9.1	$ 30.8	$ 24.1	$ 14.8	$ 60.0	$ 20.6
$190.2	$ 64.5	$ 32.3	$ 74.5	$ 46.0	$ 51.9	$ 54.2	$ 35.7	$ 56.2	$ 90.2
3.2	3.0	2.2	4.6	6.0	2.7	3.2	3.4	1.9	5.3
$116.7	$ 86.3	$ 55.8	$ 54.5	$ 31.9	$ 62.6	$ 57.7	$ 11.5	$ 59.5	$ 49.5
$415.5	$185.6	$114.4	$160.3	$ 88.0	$184.3	$137.0	$ 64.8	$197.8	$164.8
$ 8.24	$ 7.73	$ 5.03	$ 16.33	$ 2.94	$ 7.07	$ 4.26	$ 9.94	$ 5.84	$ 11.67
18.9%	11.1%	13.8%	15.4%	22.3%	13.4%	14.6%	17.5%	15.8%	27.0%
42.0%	36.9%	52.9%	43.4%	57.5%	38.1%	49.3%	38.8%	50.1%	50.1%

ing capital improved to $190 million from $182 million a year earlier. Nevertheless, the trend of the company's business, as evidenced by a $34 million drop in sales last year necessitated a paring of the dividend to 50¢ from 60¢ in the first quarter of the current year.

Borg-Warner apparently intends to keep itself financially sound so that it may continue the research and product development programs that have been so successful in the past—but the loss of its Ford transmission business would cloud the company's future considerably. Management, however, has shown excellent resourcefulness in the past and should be able to replace this business eventually. Nevertheless, with most of its major markets receding, the company will be sorely tested for the next year or two.

Original Equipment Slowdown

By far the most serious setbacks among the parts producers will occur among the original equipment makers, and those that are represented in more than one downward-spiralling industry. Ford's 77 per cent drop in earnings in the first quarter, and Chrysler's indicated deficit operation are ominous harbingers of things to come. Companies such as **Electric Auto-Lite**, which last year reaped windfall profits as their main customer, Chrysler swept the field, are now being whipsawed by the reversal of the trend. Chrysler has lost a large part of the market it gained last year, and its suppliers are bound to suffer along with the major company.

In 1957 Auto-Lite earned $4.72 per share from operations, a healthy rebound from the $1.47 the year before, but by the fourth quarter the handwriting was already on the wall. With new models already out, and the impact of the slower car market hitting hard, earnings slid to 24¢ per share compared with 72¢ in the last period of 1956. However, the full force of the decline in the company's business will not really show up until comparisons with the $2.31 first quarter are in.

The company's volatility stems from the narrowness of its sales base. Fully 67 per cent of revenues are derived from original equipment business, and Chrysler alone provides over 40 per cent of the total. Only 15 per cent of sales are of non-automotive products.

Of the three major car producers, General Motors is probably faring best currently, but with output reduced, its suppliers are *(Please turn to page 222)*

FOR PROFIT AND INCOME

Selectivity

The market is always selective at any given time. To say that it remains so now is to state the obvious. However, one thing worth noting is that, in general, its upside leadership has broadened along more speculative lines in recent weeks. That can mean increasing technical vulnerability, since there is nothing in the profit-dividend picture to support a sustained rise—as distinct from rallies—in most of the speculative sections of the market. For example, here are some of the lower-quality issues which recently outgained the industrial average: American Broadcasting-Paramount, Bestwall Gypsum, Bigelow-Sanford Carpet, Case, Checker Motors, Continental Baking, Granite City Steel, Murray Corp., National Can, Oliver Corp., Rohr Aircraft, Servel, Temco Aircraft, Underwood Corp., and Wilson.

Investment Section

At the same time, strong demand continues for investment-grade income stocks, due to the appeal of well-maintained or higher earnings, plus the further shrinkage in bond yields stemming from the recent additional money-easing moves of the Federal Reserve. Since a drab business outlook is indicated at least into the fourth quarter, it is likely that money rates will go still lower, via further official action and reduced credit demands, in the months ahead. That promises some further rise in good income stocks, regardless of the trend of the industrial and rail averages. We have heretofore recommended a number of them. Examples are most numerous in such lines as electric utilities, natural gas distributors, food brands, dairy products, food-store chains, finance, some retail stocks, and tobaccos.

Group Divergencies

At this writing, the principal stock groups performing better than the industrial average are: gold mining, farm equipment, foods, machine tools, motion pictures, department stores, small-loan stocks, soft drinks, steel, utilities and tobaccos. Groups in which current performance is poorer than average include: aluminum, auto parts, building materials, chemicals, coal, electrical equipment and appliances, metal fab-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Florida Power & Light	Quar. Mar. 31	$ .96	$ .81
Jewell Tea Co.	12 Weeks Mar. 22	1.14	.99
Cessna Aircraft Co.	6 mos. Mar. 31	2.69	2.21
Lorillard (P.) Co.	Quar. Mar. 31	1.90	.36
Texas Instruments Inc.	Quar. Mar. 31	.34	.25
Carolina Power & Light	12 mos. Mar. 31	1.92	1.67
Chance Vought Aircraft	Quar. Mar. 31	2.12	.93
Minnesota Power & Light	12 mos. Mar. 31	2.61	2.13
Pullman Inc.	Quar. Mar. 31	1.31	1.12
International Business Mach.	Quar. Mar. 31	1.98	1.58

ricating, paper, textiles and tires.

Leaders?

Here are some of the more prominent stocks which have been under pressure recently, and which at this time are either at new lows for 1958 or close to their poorest 1958 levels: Allied Chemical, Firestone Tire, Chrysler, National Lead, Babcock & Wilcox, Hertz, Sun Oil, Borg-Warner, International Nickel, Motorola, Goodyear, General Electric, Monsanto Chemical, Allis-Chalmers, Thompson Products, Johns-Manville, Union Carbide and Westinghouse Electric. Can it be a new bull market in the making with so many important stocks lagging, and many of them still over-priced on earnings? We do not assume so.

Steel

In the face of dismal first-quarter earnings reports, the steel stock group—and particularly the leaders in it—has held on the test and rallied moderately. On the positive side, one can reason that the more efficient companies are able to make good profits at an operating rate of 75% to 80% of capacity, which is to say as soon as general industrial activity gets back to a more normal level; that general business improvement cannot by-pass the steel industry, as is possible, for example, in aircraft, air lines, movies, textiles and a few other lines subject to special considerations; and that no industry is better situated to cope with cost inflation via upward price adjustments under reasonably normal or active conditions. On the negative side are these considerations: (1) the more desirable steel stocks are much above any bargain level, when their prices are weighed against likely 1958 earnings and dividends; and (2) the time when operations might get back to 75%-80% of capacity, against less than 48% at this point, is more than a little conjectural. With prospects dim for the automobile industry, for home appliances, for heavy construction, for new shipbuilding contracts, for railroad equipment and track maintenance items, for heavy machinery, and for oil-gas pipes, where is a real revival in steel demand to come from and when? Of course, it might be that steel stocks will not get down to particularly attractive levels, as they did in 1949 and 1953; but the other side of it is that, if they do not, the upside potentials would appear to be fairly limited at best for some time to come. Hence, our attitude on steel stocks here has to be more neutral than bullish or bearish.

Machinery

The machine tool industry has had a moderate improvement in orders for three consecutive months. It may be past bottom in terms of new business, near bottom in terms of deliveries out of order backlogs. But total outlays for new plant and equipment are, of course, trending sharply downward, they figure to be lower in 1959 than in 1958, and present indications, based on surveys of management programs, suggest no significant upturn before 1961 at the earliest. Therefore, over-all demand for machine tools does not seem likely to get back above modestly profitable operating levels for an extended time to come. If that conclusion is correct, rallies in the stocks should not be misinterpreted as regards basic market potentials. How can there be even a small improvement in orders under present conditions in the capital-goods field? Answers: (1) business generated by increased defense spending; (2) some automobile company ordering to tool up for new models; (3) a marked shift in emphasis in capital programs from plant expansion to equipment improvement with the aim of bolstering profit margins. Contrasting with mild improvement for machine tools, the situation of most makers of heavy machinery is, and will be for an extended period: Shrinking orders, lower profits.

American Motors

It is something new in your time and ours, but not at all mysterious, to see the auto industry depressed, but American Motors thriving, whereas its situation was both marginal and precarious not so long ago. Of course, the answer is the company's emphasis on smaller, lower-priced cars. Its competition in this field will be confined to imported European cars at least until the autumn of 1959, for it will take that long for the "Big Three" to swing partially into the lower-priced, small-car field. Their new models to be introduced next autumn were designed many months ago and will be pretty much "more of the same". American Motors earned $1.31 a share in six months through March 31, against a deficit of 94 cents a share for the like year-earlier period. The stock is now around 11½, up from 1957 low of 5¼. We pointed out speculative possibilities in it here some time ago. It has a chance of going higher. No one can figure by how much. It is not a stock to "put away" for keeps. The looming specter of small-car competition from the "Big Three" can affect it by the forepart of next year.

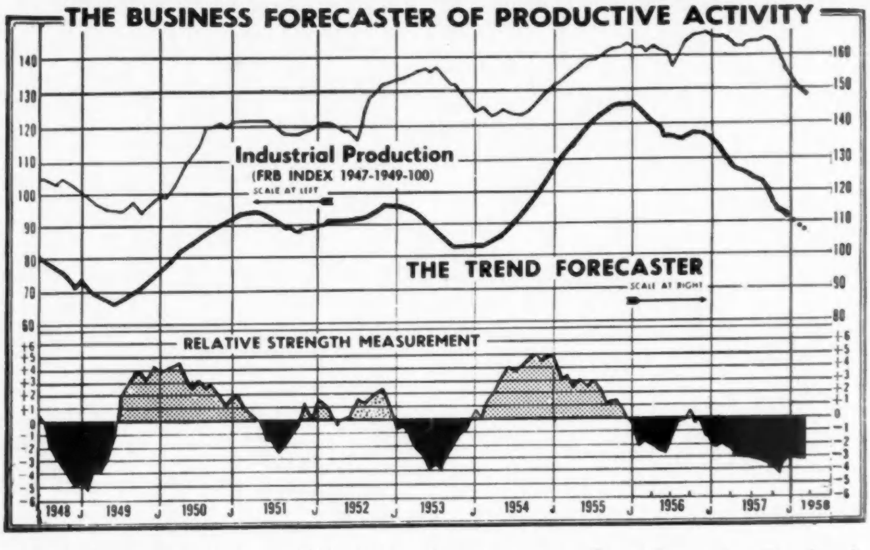
Accident?

First-quarter earnings of United Biscuit "fell out of bed" to 39 cents a share, from 73 cents a year ago; while those of National Biscuit and Sunshine Biscuits showed gains. The management did not bother to offer any explanation, leaving stockholders to guess whether there was some special non-recurring charge, which seems unlikely, or some special price-cutting, which seems possible. This is not the first time that the company's earnings took a sudden dive. Now around 30, yielding about 5.3% on a 40-cent quarterly dividend which was not quite covered in the period, the stock has become more of a speculation than a semi-income issue. Advice: sell it and switch into something more reliable. END

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Diamond Alkali Co.	Quar. Mar. 31	$ .31	$ .81
Garrett Corp.	9 mos. Mar. 31	2.77	3.62
New York Air Brake	Quar. Mar. 31	.34	.89
Great Northern Rwy.	Quar. Mar. 31	.24	.57
Monarch Machine Tool	Quar. Mar. 31	.20	.84
Penn-Dixie Cement Corp.	Quar. Mar. 31	.01	.30
Rohm & Haas Co.	Quar. Mar. 31	2.60	3.76
Cutler-Hammer, Inc.	Quar. Mar. 31	.80	1.23
Fairbanks, Morse & Co.	Quar. Mar. 31	.02	.48
Texas Pacific Coal & Oil	Quar. Mar. 31	.42	.58

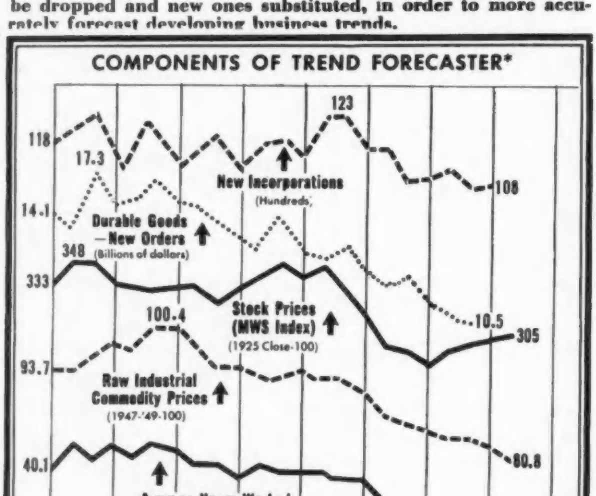
the Business



Business Trend Forecaster *

INTERESTING TO NOTE – The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(*)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F. W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In March, the **Relative Strength Measurement** continued at about the minus 3 level, pointing to further recession in general business throughout the second quarter and into the third quarter.

As of March, the only component indicators of the **Trend Forecaster** that were definitely in an ascending phase were stock prices and nonresidential construction contract awards. Of the remaining six components, business failures, durable goods orders and housing starts were in notable declines, as were raw industrial commodity prices. New incorporations and average hours worked have moved inconclusively in the past three months.

In April, stock prices moved up, while commodity prices declined, for the fourth consecutive month. While these two indicators can move inconsistently for a period, they tend eventually to return to a normal relationship.

The **Trend Forecaster** itself has now been declining almost continuously for twenty-seven months, the longest such period on record for the postwar years. The rate of decline has abated only slightly in recent months; the indications are for moderate further declines in business in the Spring and Summer.

Analyst

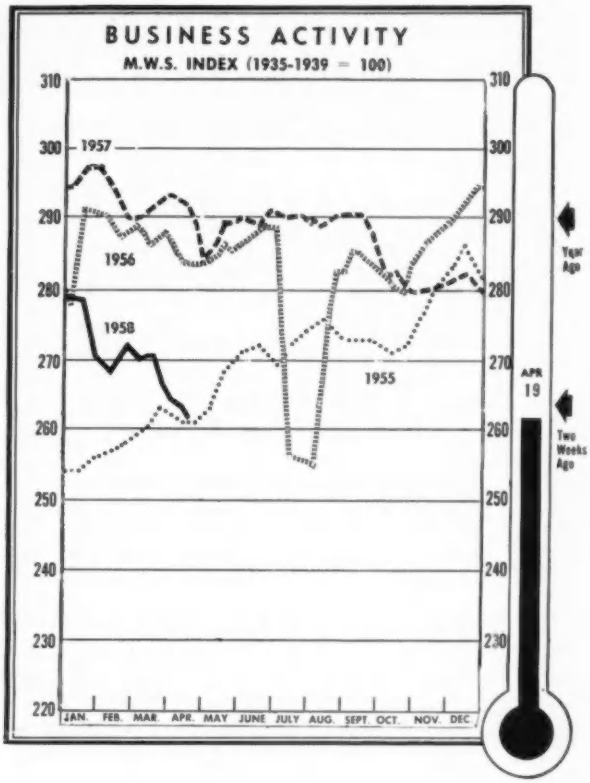
CONCLUSIONS IN BRIEF

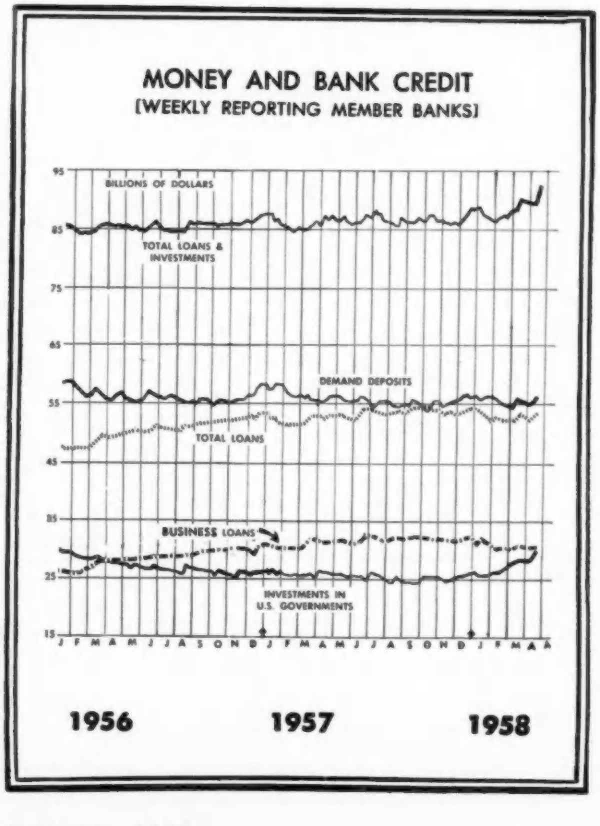
PRODUCTION—still slipping, but much more slowly in late April; big drops in steel, petroleum are over. Finished goods output still declining. Outlook: industrial production at about 125 (on the Federal Reserve index) through the summer.

TRADE—the decline here too is levelling off, with total retail volume at about $16 billion a month, seasonally adjusted. Outlook: not much change through the summer.

MONEY & CREDIT—supplies and rates continue to ease. Funds now abundant for short-term loans, getting abundant even for long-term. Demand for credit abating, making for further decline in rates, but at a slower pace, in coming months.

COMMODITIES—in general, continued ease in prices, of industrial commodities particularly. But certain selected commodities (steel scrap, copper) may be at or have passed a bottom for 1958. Downward pressure on finished goods continues.





AS of the second quarter, it seems clear enough that the rate of decline in general business conditions is no longer as rapid as it was in the fourth quarter of 1957, or the first quarter of 1958. In a number of areas—those struck hardest by a reversal of business inventory policy—decline has already given way to an uneasy, uninspired stability. This is true of steel, of petroleum, and perhaps of several other raw materials. In the automobile market, too, adjustment to the unhappy prospect of a 4.5 million year is now largely completed. While stocks of finished automobiles in the hands of dealers are still fairly heavy—particularly in relation to the low selling rate—production is now below the very reduced level of demand, and dealer stocks are, at long last, declining. Further reductions in automobile production schedules thus appear to be out of the picture until the late summer, when production will doubtless stop altogether for a prolonged model-changeover, when stocks of 1958 models will be cleared out.

The remaining question for general business is how the broad range of finished goods other than automobiles is holding up, and here the news, while not serious, remains disquieting. The rate of capital goods production is continuing to fall, even though the rate of orders for new capital goods may already have struck bottom. The same is evidently true of construction specialties; orders in these industries have been sharply curtailed, and production is still sinking to a more sustainable level.

Despite the continued decline, the very early beginnings of some strengths have made at least a temporary, hesitant appearance. Inventory demand, while it most certainly has not revived, seems to have stopped falling; there is some

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Mar.	128	130	145
Durable Goods Mfr.	1947-'9-100	Mar.	135	137	163
Nondurable Goods Mfr.	1947-'9-100	Mar.	124	125	131
Mining	1947-'9-100	Mar.	113	119	132
RETAIL SALES*	$ Billions	Mar.	15.9	16.1	16.3
Durable Goods	$ Billions	Mar.	4.9	5.1	5.1
Nondurable Goods	$ Billions	Mar.	11.0	11.1	10.6
Dep't Store Sales	1947-'9-100	Mar.	130	124	137
MANUFACTURERS'					
New Orders—Total*	$ Billions	Feb.	24.0	24.3	28.6
Durable Goods	$ Billions	Feb.	10.5	10.7	14.1
Nondurable Goods	$ Billions	Feb.	13.5	13.6	14.5
Shipments*	$ Billions	Feb.	25.6	26.3	29.5
Durable Goods	$ Billions	Feb.	12.0	12.6	14.8
Nondurable Goods	$ Billions	Feb.	13.6	13.7	14.7
BUSINESS INVENTORIES, END MO.*	$ Billions	Feb.	89.3	90.0	89.6
Manufacturers'	$ Billions	Feb.	52.5	52.9	52.9
Wholesalers'	$ Billions	Feb.	12.5	12.6	12.8
Retailers'	$ Billions	Feb.	24.3	24.5	23.9
Dept. Store Stocks	1947-'9-100	Feb.	146	147	149
CONSTRUCTION TOTAL	$ Billions	Mar.	3.4	3.1	3.3
Private	$ Billions	Mar.	2.4	2.3	2.4
Residential	$ Billions	Mar.	1.2	1.1	1.2
All Other	$ Billions	Mar.	1.2	1.2	1.2
Housing Starts*—a	Thousands	Mar.	880	890	933
Contract Awards, Residential—b	$ Millions	Mar.	1,071	727	1,107
All Other—b	$ Millions	Mar.	1,650	1,226	1,971
EMPLOYMENT					
Total Civilian	Millions	Mar.	62.3	62.0	63.9
Non-Farm	Millions	Mar.	50.2	50.2	51.9
Government	Millions	Mar.	7.5	7.5	7.4
Trade	Millions	Mar.	11.2	11.2	11.3
Factory	Millions	Mar.	11.6	11.8	13.1
Hours Worked	Hours	Mar.	38.5	38.4	40.1
Hourly Earnings	Dollars	Mar.	2.10	2.10	2.05
Weekly Earnings	Dollars	Mar.	80.85	80.64	82.21
PERSONAL INCOME*	$ Billions	Mar.	341	342	340
Wages & Salaries	$ Billions	Mar.	233	234	237
Proprietors' Incomes	$ Billions	Mar.	51	51	51
Interest & Dividends	$ Billions	Mar.	32	32	31
Transfer Payments	$ Billions	Mar.	24	24	20
Farm Income	$ Billions	Mar.	17	17	16
CONSUMER PRICES	1947-'9-100	Feb.	122.5	122.3	118.7
Food	1947-'9-100	Feb.	118.7	118.2	113.6
Clothing	1947-'9-100	Feb.	106.8	106.9	106.1
Housing	1947-'9-100	Feb.	127.3	127.1	124.5
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Feb.	105.4	104.6	106.9
Bank Debits*—g	$ Billions	Feb.	79.5	84.4	84.5
Business Loans Outstanding—c	$ Billions	Feb.	30.4	30.5	30.3
Instalment Credit Extended*	$ Billions	Feb.	3.2	3.5	3.5
Instalment Credit Repaid*	$ Billions	Feb.	3.4	3.4	3.3
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Mar.	9.5	6.3	10.7
Budget Expenditures	$ Billions	Mar.	5.7	5.5	5.6
Defense Expenditures	$ Billions	Mar.	3.5	3.4	3.7
Surplus (Def) cum from 7/1	$ Billions	Mar.	(3.4)	(7.2)	(1.4)

PRESENT POSITION AND OUTLOOK

promise of a revival of housing starts in recently released figures on applications for government guaranteed mortgage commitments; and federal government spending has worked its way into an irregular rise. If a recovery in general business is to begin before the end of the year, these scattered spots of hope will have to grow in the next three months.

* * *

NATIONAL OUTPUT—according to figures recently released by the President's Council of Economic Advisers, national production of goods and services in the first quarter of 1958 was at an annual rate of $424 billion—about $9 billion less than in the fourth quarter of 1957, and about $16 billion below the peak rate of mid-summer 1957. This drop in the so-called Gross National Product is somewhat more rapid than in either of the two earlier postwar recessions.

Major elements in the decline have been a pronounced fall-off in the rate of personal expenditures for durables; an almost equally sharp decline in business spending for tools; and an extraordinarily fast reversal of inventory demand. Of the $16 billion drop in national output from the peak to the current rate, almost $10 billion can be accounted for by the urgent swing of business inventory policy from accumulation to liquidation.

In the second quarter of 1958, gross national product is most unlikely to fall as rapidly as in the two preceding quarters, mainly because inventory demand is not likely to decline further. **A first-half rate of GNP in the neighborhood of $422 billion is shaping up; that would be about $10 billion below the level of the first half of 1957** The figures as released confirm early estimates reported in this column in the issue of April 26.

* * *

CORPORATE PROFITS — reliable figures on corporate profits lag far behind the facts. But it now seems evident that in the fourth quarter of 1957 total earnings of all corporations fell about 12% below the third quarter of 1957; and in the first quarter of 1958 they evidently fell another 10%. In early 1958, corporate earnings are running about 25% below the level of early 1957. The rate of dividend payments is down only very slightly; hence, corporate retentions have been very hard hit. Some estimates place the rate of retained earnings fully 50% below the rate of a year ago. Small wonder that corpo-

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 I Quarter	1957 IV Quarter	1957 III Quarter	1957 I Quarter
GROSS NATIONAL PRODUCT	424.0(e)	432.6	440.0	429.9
Personal Consumption	281.0(e)	282.4	283.6	276.7
Private Domestic Invest.	53.5(e)	61.3	66.5	63.6
Net Foreign Investment	1.5(e)	2.0	3.2	4.1
Government Purchases	88.0(e)	87.0	86.7	85.6
Federal	49.7(e)	49.7	50.6	50.3
State & Local	38.3(e)	37.3	36.1	35.3
PERSONAL INCOME	342.3(e)	345.5	346.9	338.3
Tax & Nontax Payments	43.0(e)	43.4	43.6	42.2
Disposable Income	299.3(e)	302.1	303.3	296.1
Consumption Expenditures	281.0(e)	282.4	283.6	276.7
Personal Saving—d	18.3(e)	19.8	19.7	19.5
CORPORATE PRE-TAX PROFITS			41.8	43.9
Corporate Taxes			21.3	22.4
Corporate Net Profit			20.4	21.5
Dividend Payments			12.6	12.4
Retained Earnings			7.8	9.1
PLANT & EQUIPMENT OUTLAYS	34.0(e)	36.2	37.8	36.9

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Apr. 19	261.7	263.3	290.2
MWS Index—per capita*	1935-'9-100	Apr. 19	196.8	198.0	221.5
Steel Production	% of Capacity	Apr. 27	47.1	47.6	87.0
Auto and Truck Production	Thousands	Apr. 26	85	99	160
Paperboard Production	Thousand Tons	Apr. 19	263	257	283
Paperboard New Orders	Thousand Tons	Apr. 19	230	237	229
Electric Power Output*	1947-'49-100	Apr. 19	219.2	222.7	226.0
Freight Carloadings	Thousand Cars	Apr. 19	534	521	670
Engineering Constr. Awards	$ Millions	Apr. 24	326	304	440
Department Store Sales	1947-'9-100	Apr. 19	117	103	128
Demand Deposits—c	$ Billions	Apr. 16	56.5	55.3	56.6
Business Failures	Number	Apr. 17	346	342	302

PRESENT POSITION AND OUTLOOK

rations continue to cut their capital spending programs.

* * *

UNEMPLOYMENT IN APRIL — it usually declines pretty sharply in April, because of seasonal pickups in such out-door work as construction and farming. The decline this time — from 5,198,000 in March, to 5,120,000 last month—was much less than seasonal expectations called for. As a result the seasonally adjusted rate of unemployment as a percent of the labor force, rose to 7.5% from 7.0% the previous month. Note also that the number of unemployed who are exhausting their benefits rights under state unemployment compensation programs is also growing; exhaustions are now running 50% greater than in mid-March.

* * *

CONSUMER PRICES — they continue to climb, reaching a new peak in March. However, virtually all of the strength at retail comes from food prices; for most other goods, prices are little changed from their level of a year ago. Prices of services, on the other hand, have continued upward. Medical care is now about 4% more expensive than in the spring of 1957; personal care (barber shop and beauty shop charges, etc.) are up about 5%. Rental costs, too, are 2%-3% above a year ago. One item that costs more today: automobiles. But automobile prices have begun to slip under the pressure of heavy dealer stocks.

***—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.**

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958 Range High	1958 Range Low	1958 Apr. 18	1958 Apr. 25
300 Combined Average	312.9	283.9	307.5	312.9H
4 Agricultural Implements	216.5	196.5	211.0	216.5
3 Air Cond. ('53 Cl.—100)	99.0	87.8	98.2	99.0
9 Aircraft ('27 Cl.—100)	1070.6	982.2	1031.3	1041.1
7 Airlines ('27 Cl.—100)	727.5	638.8	698.0	709.8
4 Aluminum ('53 Cl.—100)	309.1	253.4	278.7	276.2
6 Amusements	145.2	125.0	136.9	145.2H
8 Automobile Accessories	313.2	298.9	304.6	304.6
6 Automobiles	46.1	40.8	43.1	46.1H
4 Baking ('26 Cl.—100)	33.8	28.5	32.9	33.8H
4 Business Machines	950.1	898.2	907.0	924.2
6 Chemicals	540.3	509.5	514.6	524.9
5 Coal Mining	20.3	18.4	20.3	20.0
4 Communications	97.4	85.7	94.1	97.4H
9 Construction	122.1	107.5	115.9	116.9
7 Containers	844.6	707.3	830.9	844.6H
7 Copper Mining	223.0	184.6	208.4	208.4
2 Dairy Products	129.4	115.6	129.4	127.1
6 Department Stores	93.9	78.9	87.9	93.9H
5 Drugs-Eth. ('53 Cl.—100)	275.6	217.2	275.6	275.6
6 Elec. Eqp. ('53 Cl.—100)	207.2	195.8	199.6	201.5
2 Finance Companies	635.7	568.8	618.9	624.5
6 Food Brands	303.1	255.5	295.6	303.1H
3 Food Stores	218.6	182.2	215.0	218.6H

(Nov. 14, 1936 Cl.—100)	1958 Range High	1958 Range Low	1958 Apr. 18	1958 Apr. 25
100 High Priced Stocks	206.6	189.7	203.1	206.6H
100 Low Priced Stocks	377.8	334.7	369.7	377.8H
5 Gold Mining	757.1	530.5	705.6	757.1H
4 Investment Trusts	156.8	144.4	151.3	156.8H
3 Liquor ('27 Cl.—100)	1029.8	913.4	994.0	1003.0
8 Machinery	374.7	343.8	357.6	361.0
3 Mail Order	174.4	143.3	171.7	174.4
4 Meat Packing	149.0	123.6	143.5	149.0H
5 Metal Fabr. ('53 Cl.—100)	161.1	142.2	144.9	143.5
9 Metals, Miscellaneous	305.2	276.3	286.8	292.0
4 Paper	900.7	841.8	867.1	892.3
22 Petroleum	713.3	629.7	700.4	713.3H
21 Public Utilities	289.6	258.9	287.1	289.6H
7 Railroad Equipment	66.9	59.2	65.8	66.9
20 Railroads	48.0	43.0	48.0	48.0
3 Soft Drinks	533.0	445.6	528.6	533.0H
12 Steel & Iron	273.3	242.3	254.1	258.9
4 Sugar	113.6	102.8	107.7	113.6H
2 Sulphur	651.0	543.4	629.5	640.2
10 Television ('27 Cl.—100)	32.9	28.8	32.9	32.9
5 Textiles	121.6	106.9	121.6	117.7
3 Tires & Rubber	160.9	142.3	142.3	145.4
5 Tobacco	134.3	110.9	133.3	134.3H
2 Variety Stores	278.8	239.3	276.6	278.8H
17 Unclassif'd ('49 Cl.—100)	166.0	145.4	160.5	166.0H

H—New High for 1958.

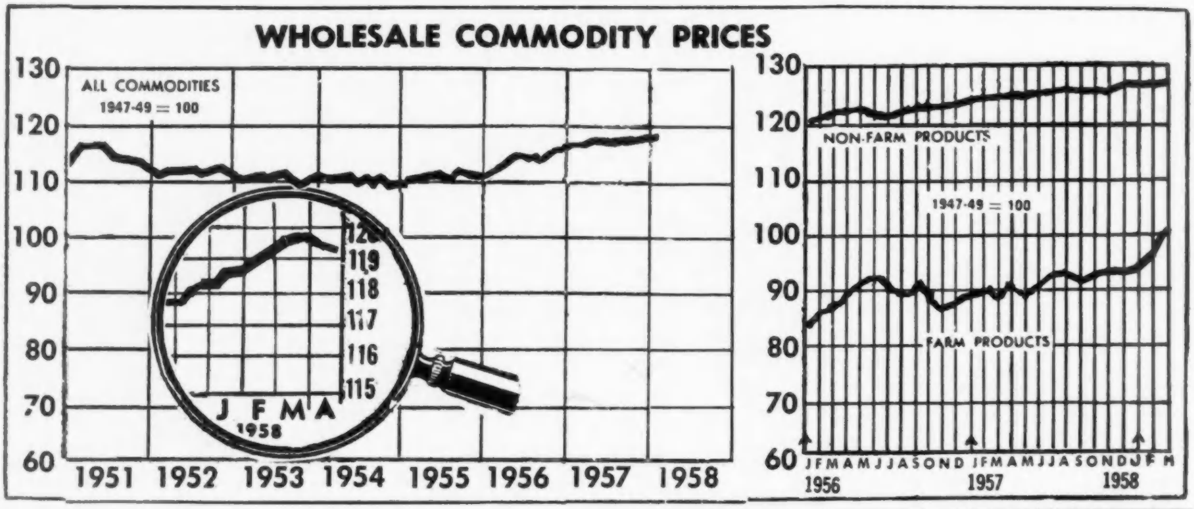
Trend of Commodities

SPOT MARKETS — Sensitive commodities continued to lose ground in the two weeks ending April 25. The BLS index of 22 such commodities fell 0.6% with raw industrial materials again leading the decline. This component was down 0.8%, impelled by lower quotations for rubber, steel scrap, print cloth and wool tops. Foods continued their slow decline, giving up 0.2% during the period.

The rank and file of commodities are beginning to show weakness as evidenced by the action of the BLS comprehensive wholesale price index. In the two weeks ending April 22 it receded further, to a level 0.4% under its March peak. Farm and food products led the drop while the index of all other commodities was slightly lower.

FUTURES MARKETS — Prices for most commodity futures were lower in the two weeks ending April 25, including wheat, oats, soybeans, lard and wool tops. Bucking the downtrend were copper and lead, reversing a long period of weakness. Cocoa and coffee also strengthened in active trading.

Wheat prices were under pressure in the period under review and the May, 1958 option lost 5½ cents. Excellent growing weather seemed to be the main reason for the weakness, affecting even the old crop future. Although the current supply situation remains tight, reports that new crop wheat might reach the market two or three weeks earlier than normal brought selling into the May option, which is still 29 cents above the July.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Apr. 22	119.4	119.6	117.2	60.2
Farm Products	Apr. 22	97.5	99.4	90.6	51.0
Non-Farm Products	Apr. 22	125.7	125.8	125.4	67.0
22 Basic Commodities	Apr. 25	84.1	84.6	88.5	53.0
9 Foods	Apr. 25	89.9	90.1	81.7	46.5
13 Raw Ind'l. Materials	Apr. 25	80.2	80.8	93.4	58.3
5 Metals	Apr. 25	80.3	81.0	108.0	54.6
4 Textiles	Apr. 25	75.6	76.4	84.0	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS
1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

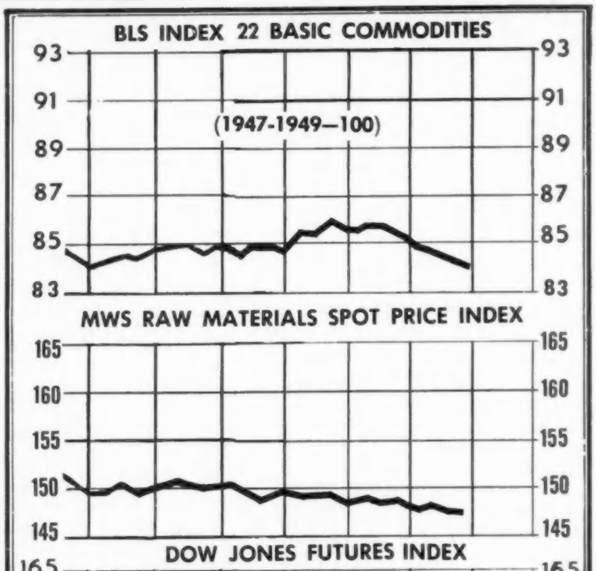
	1958	1957	1953	1951	1945	1941
High of Year	150.2	166.3	162.2	215.4	98.9	85.7
Low of Year	147.3	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX

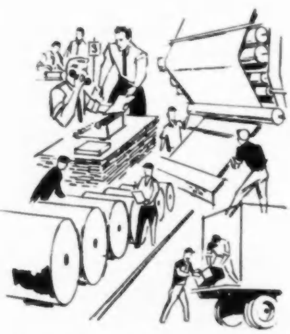
12 COMMODITIES

AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	158.2	163.4	166.5	214.5	106.4	84.6
Low of Year	154.1	153.8	166.8	189.4	105.9	84.1
Close of Year		156.5	147.9	176.4	96.7	74.3



there's more to Cities Service than meets the eye!



Literally everyone connected with a newspaper goes unseen except the newsboy who sells it. Editors, reporters, copy boys, makeup men, engravers, typesetters—this is but a fraction of the hidden army that brings you the news.

A newspaper is much more than a few ounces of paper and a bit of printer's ink. It is the end product of acres of forests converted into newsprint, of world-wide news and photo organizations, diligent local staffs, skilled editors and typographers, block-long high-speed presses, and fleets of vehicles to rush the printed paper to readers while the news is "hot."

There is much more, also, to a gallon of gasolene than a chemical analysis would show. The motor fuel supplied at Cities Service stations is the end product of a job which reaches out to four continents. All this required a capital investment from Cities Service of more than $179,000,000 in 1957 alone.

Only in this way can the petroleum needs of the public be met—and petroleum, next to food, is the most vital product in America today.

CITIES SERVICE

Checkered Outlook for Accessory Makers

(*Continued from page* 213)

finding little to console themselves about. **Libbey-Owens-Ford,** for example supplies GM with all its safety glass, and also numbers a few independents among its customers. Reflecting the downward trend in GM sales this year, first quarter earnings were halved to 72¢ a share compared with $1.58 in the same period a year ago.

In the past Libbey has looked to the new home market for sales diversification, but the lag in new housing starts this year has contributed to the poorer performance.

Nevertheless, LOF is not a company to be brushed off lightly. It has a well established reputation for operating efficiency, and its reported earnings are often deceiving since it writes off an abnormally large amount for depreciation. Moreover, financial position is exceptionally sound, enabling the company to withstand temporary setbacks. As of the end of 1957 cash of $37 million was $6 million higher than all liabilities, and working capital was a healthy $52 million compared with $43 million a year ago.

Impact of Defense Business

Because it promised the greatest return for the smallest investment in plant and equipment, most of the parts producers centered a goodly portion of their diversification in defense production, and primarily in aircraft parts. The result at first was a happy one, but when defense payments were "stretched out" in mid-1957 many contracts were cancelled as the plane-makers took on an additional share of their own parts work.

Thompson Products swung so far over into aircraft parts production that it now accounts for two-thirds of all revenues, while auto parts have slipped to about 25 per cent. Nevertheless, Thompson appears to have gone from the frying pan into the fire, temporarily anyway. Defense stretchouts hit the company hard in the last half of 1957, and by the last quarter earnings had slid to 53¢ a share from $1.93 in the same period of 1956. This year, with aircraft sales still lagging, and auto parts sales weak, the downtrend continued into the first quarter with earnings of 67¢ compared to $1.44 a year earlier.

Fortunately for Thompson, a quick shift has been made into missile production, so that by the second half of 1958, when newly appropriated funds get translated into actual orders, some stability may be introduced into operation. Actually, the company may eventually become one of the most important in the missile field. Its Ramo-Wooldridge Division is a major research organization and directs most of the Air Force's missile and electronics research.

Bendix Aviation is in a similar position. Almost 65 per cent of sales are now component parts for the aircraft industry, and automotive parts have been reduced to under 20 per cent. Nevertheless, the slowdown in auto production is taking its toll on the company's operations. Along with reduced defense business during the company's first half, the decline in automobile business caused first quarter earnings to drop to 97¢ compared with $1.25 in the initial period of 1957. Moreover, the decline may well have continued through the second quarter (ended March 31, 1958) and into the third. After that, however, stepped up defense spending should start sales upward again. Bendix has become a leader in aircraft and missile electronics (avionics) and has also successfully shifted its major emphasis from aircraft to missile parts. It is the prime contractor for the Talos surface-to-air guided missile and is a major supplier of parts for several other important missiles. In addition the company has successfully developed a new blind landing device that should have widespread applicability in both military and civilian aviation.

Earnings in the year ahead will not match the record $5.44 scored in 1957, but the $2.40 dividend is likely to be covered by a comfortable margin.

By contrast, **Kelsey-Hayes,** which recently completed its diversification into aircraft parts now stands to be hurt substantially by the shift in emphasis to missile production. The company has become a major manufacturer of jet engine blades, but since the cutbacks a half year ago, Kelsey-Hayes has received no new contract awards. Combined with the decline in its auto parts business therefore, operations for the balance of 1958 should be on the downgrade. In the first quarter, which ended November 31, 1957, earnings declined to 97¢ from $1.13 a year ago, but comparisons should be even less favorable as the year progresses.

Investment Summary

With the exception of a few companies that derive practically all of their revenues from the growing replacement parts market, 1958 will be a poor year for an industry that is characterized by wide cyclical swings. Diversification is not helping the situation this year since most of the companies are aircraft and missile subcontractors, and as such are particularly vulnerable to shifts in defense emphasis. Moreover, a greater time lag exists for subcontractors between the time new defense orders are placed and production can be started.

The poor showing of the major auto manufacturers may give the parts makers some respite from the spread-integration movement, but there are few other bright spots on the horizon.

Despite lower levels of business, however, most dividends seem relatively safe, so far. Extras will probably be trimmed, especially by companies like Timken Roller Bearing and Electric Auto-Lite, and a few other regular payments in addition to Borg-Warner's may have to be shaved slightly, but no further damage seems to be in store.

Auto Industry Must Adjust to Realities

(*Continued from page* 207)

enjoy record-breaking prosperity again, if they can get their houses in order. But the profit margin per car would probably decline, if the day comes when output of American-made small cars comprises 20 or even 30 per cent of the total output. Those cars would have to be priced to compete with European small cars.

Car Preference Shown in 1958

On the basis of 1958 statistics for January and February it ap-

pears that the medium priced car will play a somewhat smaller role in the future. In the first two months, the low priced cars of the Big Three, Chevrolet, Ford and Plymouth, accounted for 57.7 per cent of the total market, compared with 58.1 per cent in the same period of 1957. The dip in sales of medium priced cars has been substantially greater. The ratio of total sales accounted for by this group declined from 34.13 per cent to 27.86 per cent in the first two months.

Both low priced and medium priced cars lost ground to European small cars and American Motors' Ramblers. In the first two months, the share of the market accounted for by European cars rose from 2.10 per cent to 5.37 per cent. Rambler's share rose from 1.67 to 2.66 per cent.

Big Three Sales

Ford's share of the market has declined this year over 4 points to approximately 26 per cent, in spite of the addition of the Edsel line. The predictions of some experts that introduction of Ford's new medium priced car, the Edsel, would boost Ford's share of the market to 33 to 35 per cent have now been exploded.

Ford retail sales in the first quarter went down to 292,000 cars from 436,000, a drop of 33 per cent as against General Motors decline from 665,800 to 569,000, or about 14 per cent.

Chrysler dropped in retail sales from 272,395 to about 160,000, a decline of over 40 per cent. This decline reflects Chrysler's decision to stand pat on its successful 1957 styling, while both Ford and General Motors spent heavily on their 1958 tooling.

In the 1959 model year, Ford and Chrysler should offer better competition in styling to General Motors, although the latter, resolved to hold its 50 per cent share of the market, is again spending heavily on tooling. Thus, gains made by Ford may be at the expense of Chrysler, and vice versa.

The volume losses sustained by the Big Three this year will unavoidably mean a heavy decline in net profits. Normally, a 15 per cent dip in sales, if continued, will mean a drop of 30 per cent in net profits, compared with last year.

Will the auto industry's problems be solved by a settlement with the union and introduction of the 1959 models?

There have been times in the past, when an upturn in new car sales has stimulated the entire economy and has lifted it out of a recession. This occurred in 1953-1954, for example.

But this year, the obstacles facing the auto industry are so impressive that we may be asking too much to expect it to play a similar role. It appears that the auto industry needs as much help from the rest of the economy, particularly from the depressed capital goods industries, as the economy needs in the way of an upsurge in Detroit. The automobile industry is normally highly susceptible to recessions. Ending of the recession is what the auto industry needs more than anything else. END

That Costly Transportation Impasse

(*Continued from page* 193)

constitute a step in the right direction. Most of the recommendations they contain were originally made in somewhat different form more than three years ago as the report of the Presidential Advisory Committee on Transport Policy and Organization. This is the first official move to put any of them into effect. If it leads to legislation, however modest in scope, the position of the railroads can hardly fail to be improved.

We cannot permit the railroads, which represent a most strategic form of transportation in this country, to decline further. Already the abandonment of trains and lines have greatly disorganized passenger travel, particularly in the East, from the outlying areas to the metropolitan centers. The economic repercussions in themselves demand the reestablishment of rail travel for the benefit of the communities and to prevent hardship in the big cities that have been dependent on the custom from the suburban areas. In fact, we are already feeling serious dislocations that can only become intensified if immediate steps are not taken to rectify the situation.

In the meantime investors and potential investors in railroad securities had better not count on speedy action, in view of the length of time it has taken for the proposals to advance from the stage of a committee report to an official letter. Owners or would-be owners of railroad stocks or bonds would be well advised to continue to base their investment policy on the positions and prospects of individual roads and developments in general business rather than on the expectation of an early and satisfactory political solution of the knotty transportation problem. —END

The Great Steel Industry

(*Continued from page* 203)

sharply, partly because of the dip in earnings and in cash flow from depreciation charges.

This problem is not unique in American industry. But because the steel industry is one in which turnover of invested capital is very slow, and because the useful life of its equipment is rather long – sometimes as much as 25 years – the forces of inflation have weighed heavier on it than on almost any other industry. Only by maintaining its profits at a high level has the steel industry been able to meet this basic problem.

Big Companies Maintain Lead

The situation of the marginal steel companies is substantially worse than that of the first line efficient producers, the so-called Big Ten. Companies such as Detroit Steel, Sharon, Pittsburgh and Colorado Fuel and Iron have dipped into red ink in the first quarter. This has occurred either because the companies were not satisfactorily diversified, or had been unable to find sufficient funds to modernize their plants as intensively as the major producers had done.

This should have come as no surprise. In the recession of 1954, a similar contrast between the first line, well diversified producers and the second line marginal producers made its appearance.

Thus far, U.S. Steel has done better than most of its major competitors. It has earned its 75 cent quarterly dividend by a good margin, reflecting a low break-even point. Bethlehem has failed by 8 cents to earn its 60 cent dividend, but this company has enormous

reserves of cash and Government securities to enable it to weather any storm. Inland Steel and Armco have done as well as could be expected, considering the low operating rate of the industry. In the light of present business conditions a fair showing has been made in first quarter earnings by Jones & Laughlin, National Steel, Republic, and Youngstown Sheet and Tube. Second quarter earnings, however, will not be as good, and some dividends are still in question.

Steel stocks have been excellent hedges against inflation ever since World War II. If a new inflationary wave sweeps the nation, the steel industry's earnings could revive quickly, to the level prevailing in 1955-1957.

But such a pattern should not be counted on too confidently. The steel industry's capacity is apparently well in excess of the nation's requirements, unless a new defense emergency arises. Further wage and price inflation would merely make it extremely difficult for the industry to do business in the world's markets. Indeed, it would inevitably result in demands that the tariff wall in this country be raised higher, to shut out increasing imports of foreign steel. Adoption of such economic isolationism would not be an easy choice, with America attempting to preserve Western Europe as a bastion of freedom. END

Western Europe and the U. S. Recession

(*Continued from page* 199)

For a picture of the European economy as of this moment and its reaction to the American recession, so far, let us look briefly at its three largest countries—the United Kingdom, France and Western Germany—which account between them for two-thirds of Western Europe's gross national product.

The Situation in Britain, Germany and France

In the *United Kingdom* the outlook is that trade both ways will be moderately lower this year than last. Since the U.S. is Britain's leading export market (having replaced Australia in 1956) the American recession is bound

to have some direct effect on British trade. It is therefore quite unlikely that either last year's figure of $724 million of British exports to the U.S. or the figure of $1.4 billion U.S. exports to Britain will be attained this year. True, the U.S. export figure was unusually high as a result of the Suez crisis which required the extraordinary shipments of American oil to Britain. However, U.S. coal shipments and cotton shipments to Britain are also likely to be sharply reduced. In addition, the levelling out of the British investment boom and some slowing down of the rate of increase in industrial output will probably decrease the demand for imports of iron, steel, and non-ferrous metals from this country.

On the other hand, Britain is not undergoing a recession—at least not yet. The country's unemployment is still equal to only 2 per cent of the total labor force (compared to nearly 8 per cent in the U.S.) and industrial production increased throughout last year—although at the very low rate of 1½ per cent per annum—and seems to have continued to creep upwards in the first couple of months of 1958. The exchange crisis of last September, when gold and dollar reserves had gone below the $2 billion minimum level, has been largely overcome and at the latest count Britain's hard currency reserve stood at a healthy $2.8 billion. This rise in the reserves has made it possible for the Bank of England to lower the discount rate from the historic high of 7 per cent, to which it had been hiked last September, back to 6 per cent. However, since all the other restrictions on government and business expenditures, imposed last year, are being maintained it is unlikely that the economy as a whole will show any increase over the 1957 level. This would not be a bad achievement, since 1957 was a record year in the country's economy. If that year's level can be maintained without the inflationary price and wage increases of last year, the country could indeed congratulate itself.

That the result of 1958 may not quite come up to such an achievement seems to be implied in the British government's economic report for 1958 which points out that "the trend of world economic activity gives rise to anxiety". According to the report, the most imminent danger is the U.S. recession which has already caused the sterling area to lose reserves to the U.S. "and lower reserves inevitably weaken the rest of the world's ability to ride out a recession without resort to restrictive measures". The report also refers to the already mentioned fact that while in the 1953 recession "the European market was expanding at a rate that outweighed the fall in U.S. business activities, today the levelling off in production is general among manufacturing countries. Their suppliers (and potential markets), the raw material producers, have already suffered loss of income through the fall in commodity prices." Thus, the British government apparently believes that the continuation of the sterling area's prosperity depends to a considerable extent on an early U.S. recovery.

In *Germany* the situation is somewhat different. Prosperity is still the keynote of the economy and there is no sign that the peak of the boom has been reached. Last year's rise in the gross national product was about 4½ per cent. Though this was a drop from the 6 per cent rate of 1956 it was still a very healthy rate of increase. Yet, the country's economic horizon is by no means unclouded. The main expansive force in 1957 was the sharp growth in the rate of exports. Trade with the United States played a major part in this development. Last year, German shipments to the U.S. amounted to nearly $600 million and U.S. shipments to Germany reached the high level of $1.3 billion.

The possibility that the current world-wide decline in foreign trade will bring Germany's boom to an end is therefore not to be dismissed. This has been officially recognized by the German State Bank which declared in its latest monthly report that "the recession in wide sections of the world's economy is now making itself more and more felt in that of the Federal Republic. The decrease in orders from abroad has quickened. . . . At the same time the relation between incoming orders and turnover further deteriorated. . . . The resulting contraction of (export) order backlogs would seem moreover to have been made greater by the fact that . . . there was some increase in cancellations of orders given earlier . . ."

So far, the decrease in the export order backlog has not affected actual export shipments. In the first two months of this year, they were nearly 8 per cent higher than in the corresponding period of 1957. Few other countries have shown such an increase in exports in 1958. How much longer this rising rate of exports can be maintained is a matter of conjecture. According to the State Bank, the downturn should come fairly soon. Yet, even if it does come it will not necessarily cause an overall decline in German economic activity, since the dampening effects of world economic conditions have been largely offset by a better trend in domestic demand. This applies particularly to the machine building industry which last year had supplied nearly one fifth of the country's total exports. Though this industry has seen its foreign order backlog shrink rapidly since the middle of last year, its domestic sales in the last quarter of 1957 were greater by 9 per cent than in the corresponding period of 1956. This trend may well be increased in the coming months by the beginning of large-scale German defense expenditures. Thus, the German economy continues to be one of the world's healthiest. Though its rate of increase is definitely slowing down, it is still far too early to talk about an end of the German prosperity. The only possible threat to it would be a sharp decline in exports later in the year. It is for this reason that the German business community watches the American situation with so much concern. It was also one of the main reasons for the recent U.S. visit of Prof. Ludwig Erhard, Germany's vice-chancellor and economics minister.

In *France*, the one country in western Europe where excess demand due not least to the high military expenditures resulting from the Algerian situation) has persisted in 1957, the prospects are for only a small further increase in output, in contrast with the very rapid growth of the preceding years. At the moment, France has less unemployment, percentagewise, than any other country in Europe. Outwardly it gives therefore the appearance

of a country in the midst of prosperity. Unfortunately, this is a false impression and is unlikely to last much longer, since it is based on deficit financing, a drawing down of foreign exchange reserves and the restriction of imports to insulate French manufacturers from the pressures of world competition. These factors make France Europe's only country still suffering from inflationary pressures. The rest of Europe had passed this stage last year and is now mainly concerned with the possibility of a deflation. France, too, will soon enter this stage. The sharp increase in plant capacity and the level of brim-full employment is not likely to be maintained much longer, particularly since it was geared to a considerable extent to an expansion in export trade which is now unlikely to come about. END

What First Quarter Earnings Reports Reveal

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crisis. The company pointed out that first quarter 1958 earnings compared relatively well with the $1.27 per share reported for the initial 1956 period.

Other Leading Companies

Even **National Lead**, well in the forefront among growth issues, reported lower first quarter earnings this year, at 72¢ per share, than the $1.22 profits of the first three months of 1957. The company's sales were 31% below a year ago, but it was able to hold the decline in earnings to 39%. All divisions participated in the lower sales volume, although the impact of low operations in the automobile industry was felt particularly by the Doehler-Jarvis Division. Also, it should be noted that the initial quarter of 1957 reflected abnormally high sales of titanium pigments, in anticipation of the April 1, 1957 price increase. The president stated, in issuing the first quarter report for this year, that "there has been no indication that the company has been adversely affected by factors other than the general decline in business". National Lead is an outstanding producer of paints, pigments, lead products, bearings,

nonferrous die castings and special metals, and thus supplies a wide range of other industries.

National Gypsum, second largest producer of gypsum building materials, is an example of a company with a two year declining trend in earning power. For the first quarter of this year, profits dropped to 50¢ per share from 76¢ in the initial 1957 period and $1.34 in the first three months of 1956. Rising costs, including expenses connected with a large expansion program, as well as lower volume, were mainly responsible. In the first quarter of this year, the company operated at 60% of capacity. The chairman of the board of directors stated, at the annual meeting, that unusually severe winter weather early this year and lowered construction activity reduced production and resulted in higher manufacturing costs at all of the company's plants. It may be noted that sales, in the initial 1958 quarter, were 8% lower than a year ago. However, the chairman hoped that more liberal credit would encourage home building in the current quarter.

Paper Industry

Other examples of companies with a downward earnings trend for the past two years are to be found in the paper industry, where capacity substantially exceeds current demand in important products. For instance, **Crown Zellerbach**, second largest producer of all major paper grades, reported first quarter earnings of 51¢ per share, as against 66¢ a year ago and 86¢ in the initial three months of 1956. Due to excess plant capacity, competition has been particularly keen with consequent price weakness in various products, and these conditions have been reflected in the earning power of the company. However, part of its recent lower output of paper and paperboard was due to a strike. In his letter to stockholders, the president stated that incoming orders in December had dropped to the lowest level of last year and that this continued into January and February. The volume of orders increased in March, but he stated that it is "still too early to tell whether this indicates a more favorable trend or simply a temporary flurry".

St. Regis Paper, another major company in the industry, reported first quarter earnings of 42¢ per share, as against 63¢ a year ago and 93¢ two years ago. The company's output includes bags, kraft paper and pulp, printing papers, containers and waxed paper products. It has substantially expanded operations in recent years, both through acquisitions and internally. At the annual meeting, the president of the company stated that there are some indications that the readjustment in pulp and paper may be stabilizing at present levels. He pointed out that customers' inventories appear to be well liquidated. He said the company is continuing its efforts to reduce costs and expenses and to achieve complete integration of its business.

Notwithstanding conditions in the paper industry, **Scott Paper** proved to be an exception to the general experience. First quarter earnings amounted to 66¢ per share or the same figure as a year ago. The company is the largest manufacturer of toilet tissues, paper towels and wax paper. Its output includes facial tissues and paper napkins. These products are in daily use by consumers. The reason for the stability of this business is thus obvious.

More Favorable Reports

Continuing on the more favorable side of the first quarter picture, **National Cash Register**, a leader in its field, reported earnings of 52¢ per share for the first three months of this year, compared with 54¢ for the initial 1957 quarter. The company is the largest manufacturer of cash registers, and an important producer of office equipment, including electronic machines. It has developed a completely automated bank depositor accounting system. While sales increased 6% in the first quarter of this year, over a year ago, earnings were slightly lower, due to larger expenditures on research, engineering and other development costs.

Another instance of a special reason for slightly lower first quarter earnings is to be found in the case of **Continental Can**. Sales, in the initial three months of 1958, were 9% higher than a year ago. However, earnings amounted to 60¢ per share, as against 62¢ in the first quarter of 1957. The moderate decrease in earnings was due largely to higher depreciation and depletion charges, resulting

primarily from the company's expansion program.

Rising Profits in Consumer Industries

Among industries supplying products for repeated use by consumers, **Corn Products Refining** reported first quarter earnings of 56¢ per share, as against 54¢ a year ago. The company is the leading producer of dextrose, syrups, starches and oil in the wet-process corn milling industry. It has a long record of growth. The quarterly dividend was increased from 37.5¢ to 40¢ per share with the January 25th payment, and a further increase to 45¢ per share was made with the April 25th payment.

Other examples of companies making consumer products in daily use are to be found in **National Biscuit** and **National Dairy**, leaders in their respective fields. The former reported first quarter earnings of 71¢ per share, as against 68¢ a year ago. Similarly, the latter's first quarter profits rose to 60¢ per share, from 56¢ last year. The stability and moderate growth of this type of business has much appeal to investors seeking safety in a period such as the present, unless family incomes should shrink further.

The same stability, with somewhat more rapid growth, is found in leading food chain stores, such as **Kroger Company** and **Safeway Stores.** First quarter earnings of Kroger, reported for the 12 weeks ended March 22nd, increased to $1.27 per share from $1.14 a year ago. Similarly, earnings of Safeway, for the same initial period of 1958, gained to 57¢ per share from 54¢ a year ago. The larger gain in Kroger's earnings was due primarily to an 11% increase in sales, compared with a 5% sales gain for Safeway. Both companies have been successful, to a great degree, in meeting rising costs of wages through self-service stores. Overhead has been held down through operation of supermarkets or larger store units.

The tobacco industry illustrates a type of product that appears to be in constant demand by consumers, regardless of the business recession and notwithstanding adverse health reports. **Reynolds Tobacco** has the leading position in both regular and filter cigarettes. In the first quarter of this year, sales were 8% higher than the initial three months of 1957, and earnings increased to $1.64 per share from $1.25 a year ago. **American Tobacco's** profits in the first quarter rose to $1.79 per share from $1.44 in the corresponding 1957 period, although sales were 3% lower. **Liggett & Myers Tobacco** reported a gain in earnings to $1.44 per share for the first quarter, from $1.29 a year ago, notwithstanding a 7% decline in dollar sales. The increase in earnings of both American and Liggett was due, in part, to the filter cigarette price advance of last July. Sales of **Philip Morris** were 4% higher in the first quarter of this year than the similar period of 1957, but earnings were moderately lower at 82¢ per share, compared with 88¢ a year ago. This was due to promotional expenses for its Parliament cigarette. Finally, **P. Lorillard** reported a striking gain in first quarter earnings to $1.90 per share, from 36¢ a year ago, due in greater part to the success of its new Kent filter cigarette. Total dollar sales were 116% higher in the recent three months than in the initial 1957 period.

In concluding our remarks on companies with favorable first quarter statements, we may mention briefly several leading drug companies. We covered this industry in our April 12th issue. Since then, **Parke Davis** has reported first quarter earnings of $1.45 per share, compared with $1.14 a year ago. Similarly, earnings of **Chas. Pfizer,** for the initial three months of this year, increased to $1.20 per share from $1.01 in the first quarter of 1957. Again, **Merck & Co.'s** first quarter earnings gained to 63¢ per share from 55¢ in the initial 1957 period. These gains arose, to a large degree, from higher sales, as well as from wide profit margins on newer products. In our drug article in the last issue, we discussed certain factors that may tend to hold down further gains in profits over coming months.

Viewing the over-all first quarter reports, both good and bad, it should be kept in mind that the business recession may continue in a relatively long trough without any near-term sharp snap-back. If this proves to be the case, second quarter earnings of many leading companies may be no better and, at least in some instances could be worse than the first three months. This is food for thought. —END

Rubber and Tire Industry

(*Continued from page* 209)

automotive uses of rubber and plastics made by the tire and rubber industry. For example, foam rubber, used in seat cushions, has become a very important item to the tire industry. Plastic auto body and instrument panel parts, as well as plastic upholstery are also important sales items for the leading rubber producers. Demand for all of these is down sharply.

Thus, despite the rubber industry's diversification in mechanical goods, in plastics and chemicals, over half of its volume is still traceable to the automobile industry. New uses have constantly been found for rubber and plastics in the automobile. While sales of tires contributed only 44 per cent of the industry's volume in 1954, against 58 per cent in the prewar years of 1938 to 1941, it is likely that all of the rubber industry's sales to the auto industry constituted well over half of its volume in 1957.

The tire industry, however, is not as vulnerable to the sharp decline in new car sales this year as the leading auto producers are. Shipments of replacement tires in the first two months of 1958, while lower than the same period of 1957 by 358,000 units, were twice as large as shipments of original equipment tires. The auto industry has an excellent replacement parts business, but the latter does not account for nearly as large a proportion of its total sales as does the tire industry's replacement business.

Last year, total production of tires, including both original equipment and replacement, amounted to 106,941,000 casings, compared with 100,382,000 in 1956. With the exception of the 112,178,000 units produced in 1955, last year was the biggest year, production-wise in the history of the industry.

In 1958, it appears likely that production will be well below 1957's total, based on output in the first two months. The Summer period of heavy vacation traveling, however, usually results in some rise in consumer demand, and the fourth quarter should see a period of brisk if temporary original equipment demand, when the auto industry has its initial run of the new 1959 model cars. Hence it is likely that tire output this year should be somewhere between 80 and 90 million units. This would represent the poorest year in volume since 1951.

1958 Company Prospects

This raises a question as to the tire and rubber industry's big investment program. Leading producers are continuing heavy plant investments in 1958. For example, U.S. Rubber is investing only 10 per cent less this year than the record breaking $36 million spent in 1957. Goodrich is investing $35 million this year, against $38.8 million spent last year. While depreciation charges remain high, in most cases these did not amount to more than one-half to two-thirds of new investments. The drain on cash resulting from such investments can be heavy, as earnings fall off, particularly if dividends are maintained.

The Big Four producers have indicated reasonable confidence that they will be able to maintain present dividends. The companies had been fairly conservative in dividend payout in recent years, but a test of U.S. Rubber's present dividend looms ahead later this year.

Goodyear appears to be facing the sharpest adjustment of any member of the Big Four. Last year, or at least until the fourth quarter, its earnings were the best in its history. The company is sole supplier of tires to Chrysler, and since Chrysler had an unusually good year in 1957, Goodyear shared in its prosperity. This year, however, Chrysler sales are down 30 to 40 per cent, and Goodyear must be sustaining a substantial drop in sales and profits.

Foreign operations, however, normally account for 30 to 35 per cent of Goodyear's annual earnings, and the company's financial position will be bulwarked somewhat by this factor.

Goodrich has indicated that it will rely on earnings and depreciation to finance the balance of its $200 million investment program. Goodrich's president has stated that the dividend is in no danger. The company accounts for 15 per cent of General Motors' requirements, and 10 per cent of Ford's. Hence it is not as hard hit as Goodyear in original equipment business.

Firestone's dividend payout was the most conservative of the Big Four in 1957. Allowing for a dip in profit this year, the company's present 65 cent quarterly rate appears to be safe.

General Tire is the most highly diversified producer in the industry. Its missile and rocket fuel subsidiary, Aerojet-General, accounts for about one third of the parent company's earnings. In addition, the RKO-Teleradio subsidiary last year accounted for

over one fourth of General's net profit. The company's nylon cord tires may meet consumer resistance in the replacement market in a recession year but there is also a chance that Chevrolet may introduce such tires as original equipment in 1959.

General's earnings in the first quarter were off sharply to 30 cents from 60 cents a share. It is getting more competition in missiles.

U. S. Rubber's first quarter report was a disappointing one, with net profit of 44 cents a share or 6 cents less than the 50 cent dividend. Yet management asserts that the second quarter will be somewhat better. The company is a heavy supplier of General Motors, which is getting a better share of the market. There are indications that the company's heavy participation in plastics and chemicals have been an important factor in the earnings decline. The company also has a weaker retail outlet structure than its competitors who maintain their own chains.

The tire industry is going through a readjustment period during which its growth appeal seems much less apparent than a year ago. Prices of the major rubber stocks have declined this year, reflecting investor disillusionment, but ratios of prices to earnings are still high. The present business recession and the special problems facing the American automobile industry make the rubber industry less attractive for investment purposes, for the present at least. END

The Great Economic Problem of Over-Capacity

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for example, the annual rate of return on stockholders equity, or invested capital, has fallen steadily for almost two years; in early 1958, it is evidently about 7% per annum after taxes, as compared with about 12% a year ago. The invested capital of manufacturing industries has been rising by about $10 billion a year, but after-tax profits, in dollars, are now lower than at any time in the past three years. In a sense, the last $30 billion of capital investment has gone totally unrewarded. Moreover, if the depreciation deductions of manufacturing corporations were taken at replacement cost, rather than historical cost, true earnings on investment would be in the neighborhood of 5% per annum, or about the return that can be had on an almost totally riskless government - guaranteed residential mortgage.

As seen from the viewpoint of the popular press, the decline in plant and equipment spending that now appears to be in a precipitous stage is a danger to the stability of the national economy, and reflects past excesses. From the point of view of business itself, however, it is a reflection of almost vicious competition for markets, and an almost hopeless search for new investment opportunities that will yield a return meriting the investment. Unfortunately, the appearance of such an investment in the late stages of a capital investment boom produces untoward results. Capital, hard-pressed in finding an adequate return, deluges the new area, and quickly brings the rate of return down through competition. Witness the fate of the early antibiotics, which passed in almost a matter of months from a fruitful new investment outlet to heavy over-investment and substantial losses. And witness, too, the now widespread practice of "poaching" through diversification; companies with accumulated investment resources seek out those areas where over-investment has not yet developed, and swamp it with new capacity until the return falls disastrously.

In prices, in production rates, in profits, and in the tendency of capital to surge uncontrollably into areas where investment still meets a return can be found the classic evidences of general, national, over-capacity. The evidence is confirmed, of course, by the now broad curtailment in investment rates in virtually all American industry. Query: where does the national capacity go from here? What is the outlook for capital goods industries themselves? When does the imbalance right itself?

And Now

By all the available evidence, basic national capacity is now several years ahead of itself. This is true in steel, in paper, in aluminum, in such finished goods as automobiles and appliances. It is still true in textiles, although in this area some correction has been in progress for several years. It is becoming increasingly true in chemicals; it is true in petroleum, although the control of production in this industry makes it appear simply in the form of greatly reduced "allowable" production rates.

At the present level of capacity, we are more than adequately equipped to produce at a rate equivalent to the peak of the industrial production index reached in 1955; in fact, industrial output could now climb fully to 165 on the Federal Reserve's production index without strain. (The record level of the index was about 145, reached in late 1955.) We are thus currently operating at about 75% of our national industrial capacity.

It is not until the Federal Reserve's production index recrosses 145 and reaches into the low 150's that any particular purpose would be served by net new additions to manufacturing capacity. How long the present decline in capital goods industries will last thus seems to depend on when national demand will again push output into this exalted range. Assuming a moderate cyclical improvement in general business in 1959, plus a regular secular uptrend in normal operating rates reflecting growth of population, it is conceivable that three more years will elapse before production rises significantly above its 1955 peak.

These calculations are, obviously, loose and uncertain. But they carry some suggestions that bear watching for the future. They suggest that it will take the rest of the 1950's, and perhaps a year or two of the 1960's, for national output to fully engage the capacity now in existence. If that suggestion has merit, then the next several years will be a period of intense competition for markets; of tough fights for profits; of vastly intensified selling efforts; and of relatively low capital outlays.

What all of this suggests is not "recession", but slackness, uncertainty—an uneasy stability, perhaps, until markets catch up with the tremendous postwar growth in the ability of business to produce. The artificial postwar stimuli to expansion and profits apparently have disappeared, leaving behind them a vacuum which only time will fill. END

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